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CANADA

BUDGET SPEECH

DELIVERED BY

HON. CHAS. A. DUNNING

MINISTER OF FINANCE

MEMBER FOR QUEENS, PRINCE EDWARD ISLAND

IN THE

HOUSE OF COMMONS

JUNE 16, 1938

OTTAWA
J. O. PATENAUDE, I.S.O.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1938

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BUDGET SPEECH

DELIVERED BY

HON. CHAS. A. DUNNING, M.P.

MINISTER OF FINANCE

IN THE

HOUSE OF COMMONS, THURSDAY, JUNE 16, 1938

THE BUDGET

ANNUAL FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

Hon. CHARLES A. DUNNING (Minister of Finance) moved:

That Mr. Speaker do now leave the chair for the house to go into committee of ways and means.

He said: Mr. Speaker, the year which it now falls to my lot to review has been an eventful, indeed a dramatic, one. In the budget speech of last year I stressed the extent to which continued economic progress for Canada as for other countries depended upon the preservation of peace and the lessening of international friction. But in February, 1937, there were few who were bold enough to predict the sudden and, in some countries, drastic reversal of world economic trends which began last autumn, and fewer still, at that time, who could possibly foresee the astounding series of crises and near-crises in international political relations which the ensuing twelve months were to bring. Yet these things have come to pass. A new major war has embroiled the Asiatic continent and in Europe we have had a succession of incidents which at times have strained the fabric of peace almost to the breaking point. In the last four months of 1937, our nearest neighbour experienced a decline in business activity more drastic than that which followed the collapse of 1929. World production, trade and prices have also declined but less rapidly than in the United States.

I

REVIEW OF ECONOMIC AND FINANCIAL CONDITIONS

Functioning under the shadow of these disturbing world events, the Canadian economy, nevertheless, has given a good account of itself. The recovery movement which had been under way for some time continued with surprising vigour almost to the end of 1937. The physical volume of business which is our most comprehensive measure of current economic activity expanded by 4 per cent from March to August and by nearly 4 per cent additional between August and November. In December a moderate decline set in and by April, the index of the physical volume of business in Canada was about 9 per cent below that for April, 1937. The low point, however, was reached in February and since that time the Canadian index has risen by 5·3 per cent. In the United Kingdom, the index of business activity compiled by the London Economist rose slightly over 2 per cent from March to August, 1937, and began falling in November to a point in April 6 per cent below the level of April, 1937. In the United States, industrial production fell slightly from March to August, 1937, then dropped sharply by 25 per cent between August and November, and by April of this year was 35 per cent below the level of April, 1937. In neither of these two countries which constitute the most important markets for Canadian products has there been in recent months any tendency to that reversal of the downward trend of the business curve which has been evident in Canada since February. World industrial production which apparently reached a peak in the first quarter of 1937, and maintained a fairly horizontal trend until August, has been declining for the last eight or nine months, the New York Annalist's world index for March, 1938, being 17 per cent below the level of March, 1937. According to the League of Nations, the physical quantum of world trade was 12 per cent less in the first quarter of 1938 than in the last quarter of 1937, and in most of the leading countries the level of wholesale prices has fallen 5 to 10 per cent from the high point reached in 1937.

Wheat Crop, 1937

The lag between the downward trend in Canada and that in other important countries is all the more remarkable when we recall that as early as last June or July it became apparent that drought conditions on the western prairies were to produce a wheat crop failure of a magnitude which a few years ago would have rendered our then less diversified economy almost prostrate. Last year Canada harvested only 182,000,000 bushels of wheat, barely 50 per cent of the average of the previous ten years, and the smallest crop since 1914. In 1914 we pro-

duced 90 per cent of last year's total from an acreage which was only about 40 per cent of the acreage seeded last year. The havoc wrought by this plague of drought reached its extreme in Saskatchewan where only 37,000,000 bushels were harvested from an acreage of almost the same size which in 1928 had produced a crop of 321,000,000 bushels.

I need not discuss the effect of this disaster on the purchasing power of western Canada—it is self evident—but I shall have occasion later to indicate what it meant to governmental expenditures. Fortunately, agricultural conditions in other parts of Canada and in respect to other farm products were more favourable and preliminary estimates show a net value of all agricultural production aggregating $681,000,000 in 1937, only $9,000,000 less than in 1936 and higher than in any other year since 1930. I recognize, Mr. Speaker, that he who ventures to make a crop forecast in the middle of June must take his courage in his hands, but I think we can safely say this much—that by and large in the wheat-growing area crop conditions at this stage are better than at any time since 1932, that in the southern drought triangle the improvement in moisture conditions has been substantial although current rains are needed in certain other areas, that the increased planting of Thatcher wheat gives a more effective insurance against rust than we have ever had before, and that the adequate preparations being made by the prairie provinces to deal with the somewhat less intense but perhaps more widespread infestation of grasshoppers should assure that losses on this account will be minimized. In other words, although we are only at the beginning of the critical period for the wheat crop, we may agree that there appears to be a sounder basis, than at any time in the last ten years, for that buoyant optimism which is again evident on the western prairies. Even with a lower world level of wheat prices, a good wheat crop would in my opinion do more than any other single factor to revitalize our whole economic life, to establish confidence and to restore a more normal balance between east and west.

Sound Internal Conditions

It was inevitable that a wheat crop failure to the extent of our 1937 experience would exercise a depressing influence on Canadian business. Apart altogether from the effect of external factors reduced purchases by the farming community of consumable goods and of farm implements, reduced volume of freight traffic on our railroads, the reduced volume of wheat and flour for export and the unfavourable reaction on business psychology would in any case have caused some slowing up in our rate of progress. But the timing and nature of the slowing up of business in this country indicate that external factors were of predominant importance. Certainly it would be difficult to discover any evidence of lack of balance or other unsoundness in our internal situation which in itself would have caused a set-back. In spite of a prolonged, consistent and indeed a rapid recovery, Canadian industry and trade had expanded and developed on a rational, well-balanced basis, the tendency for speculative activity to get out of hand had been curbed at an early stage, the normal equilibrium between various prices and items of cost was being gradually restored, and there was no evidence of any undue piling up of excess inventories, except perhaps in the newsprint industry which again is so dependent upon foreign markets. A critical examination of all the major factors leads me to the firm conviction that, had it not been for economic depression and political tension abroad, Canadian business would have continued its upward trend with only a moderate slackening in its rate of advance.

Trade of Canada

The influence of these external factors may best be seen in the statistics of our foreign trade, particularly of our exports. Export trade is the chief medium through which changes in economic conditions in other countries affect the Canadian economy. Up to August last business conditions throughout most of the world had been improving and the world price level had been rising. These favourable external conditions, coupled with the efforts which this government had made to widen export markets for Canadian products, had resulted in a steady expansion of our exports which had been the principal factor generating a steady increase in the national income of this country during the last few years. This expansion was particularly rapid during 1936 and the first nine months of 1937. Since that time, however, the business depression in the United States, the more moderate recession in the United Kingdom and several other countries, the pronounced fall in the world prices of many raw materials and the small Canadian wheat crop, have had their inevitable effect, a smaller total value of Canadian commodity exports each month than in the corresponding month of the preceding year. There have, however, been certain counteracting factors and the surprising thing is that the decreases in the latter part of the fiscal year were not sufficient to offset the gains made in the early months of the year.

Thus for the 12-month period ending March 31, 1938, our aggregate external trade was within $54,000,000 of the two billion dollar figure and was $154,684,000 or 8·6 per cent above the total for the preceding fiscal year. Our total export trade aggregated $1,148,000,000 or $27,000,000 in excess of that for the year 1936-37. While our imports have been declining since January, they registered an increase for the full fiscal year of $127,000,000 to a total of $799,000,000.

In the figures given for our total export trade I have included all exports of gold, including $22,000,000 of gold which has been sold and paid for by foreign purchasers, although the gold is still physically held earmarked in the vaults of the Bank of Canada. I have also included shipments of gold coins which are classified as monetary gold in our trade returns but which in reality are commercial gold, having been shipped in substitution for a corresponding amount of gold bullion newly produced by our gold mines.

I now desire to place on Hansard a table showing the comparative figures for imports, exports and total trade during each of the last two fiscal years:

TRADE OF CANADA

	Fiscal year ended		Increase (+) or Decrease (−)
	Mar. 31, 1937	Mar. 31, 1938	
	$	$	$
Imports	671,875,566	799,069,918	+127,194,352
Exports—			
Merchandise (excluding gold)	990,152,778	989,790,065	− 362,713
Commercial gold	84,091,442	95,031,139	+ 10,939,697
Gold coin	706,875	40,440,096	+ 39,733,221
Gold earmarked*	45,282,860	22,462,195	− 22,820,665
Total exports	1,120,233,955	1,147,723,495	+ 27,489,540
Total trade	1,792,109,521	1,946,793,413	+154,683,892

*Valued at $35 per ounce.

An understanding of the course of our foreign trade during the past year and of its effect on the Canadian economy, however, must involve an analysis of the changing composition of our export trade as well as of changes occurring throughout the year in the direction of that trade. For instance, if we are to make a fair comparison of our exports during the last two years to particular countries, it is necessary to exclude gold movements, changes in the direction of which are not primarily related to trade considerations. For this reason, in the tables which I now present showing comparative figures for the last two years of the trade of Canada with the United Kingdom and other commonwealth countries, and with the United States, the figures given do not include gold of any kind but relate solely to other merchandise transactions:

TRADE OF CANADA WITH THE COMMONWEALTH

(Merchandise—all gold excluded)

	Fiscal Year ended		Increase
	Mar. 31, 1937	Mar. 31, 1938	
	$	$	$
Imports from United Kingdom	129,507,885	144,978,493	15,470,608
Exports to United Kingdom	406,825,443	407,797,610	972,167
Imports from other Commonwealth countries	68,657,957	88,194,545	19,536,588
Exports to other Commonwealth countries	88,206,497	108,722,853	20,516,356
Imports—Total Commonwealth	198,165,842	233,173,038	35,007,196
Exports—Total Commonwealth	495,031,940	516,520,463	21,488,523
Total trade with Commonwealth	693,197,782	749,693,501	56,495,719

TRADE OF CANADA WITH THE UNITED STATES

(Merchandise—all gold excluded)

	Fiscal year ended		Increase (+) or Decrease (−)
	Mar. 31, 1937	Mar. 31, 1938	
	$	$	$
Imports from the United States	393,720,662	487,328,980	+ 93,608,318
Exports to the United States	364,354,990	343,250,669	− 21,104,321
Total trade with the United States	758,075,652	830,579,649	+ 72,503,997

From these tables it will be noted that the United Kingdom purchased from us during the last fiscal year goods to the value of $407,798,000. This is slightly in excess of 41 per cent of our total exports of merchandise, excluding gold. Exports to other commonwealth countries showed an appreciable improvement, the increase being 23 per cent, and the total volume $108,700,000. Commonwealth countries as a whole, including the United Kingdom, took approximately 52 per cent of our total merchandise exports. Imports from all commonwealth countries increased during the past fiscal year by over 17 per cent, accounting for about 29 per cent of our total purchases from abroad. From the United Kingdom alone our purchases were $15,000,000 greater than in the previous year and amounted to $145,000,000. With the United States our total merchandise trade, again excluding gold movements, amounted to $830,600,000, as compared with $758,100,000 for the preceding fiscal year. Total exports to that country fell six per cent below the figure for the previous year to a total of $343,300,000, while imports at $487,300,000 showed an increase of nearly 24 per cent.

It is significant of the influence of business depression in the United States that during the first quarter of 1938, our exports to that country were only $61,600,000. This is a decrease of 31 per cent from the first quarter of 1937 as compared with only a 6 per cent reduction for the year as a whole. Imports from the United States for the same three-month period totalled $106,400,000, a decrease of about 3 per cent. During April, exports to the United States decreased by 21 per cent and imports from the United States by 14 per cent. An analysis of a few individual items will show more clearly the adverse effect of restricted United States demand on important Canadian industries. Thus, during the first four months of this year, exports of newsprint to the United States fell by 25 per cent, of wood pulp by 41 per cent, of planks and boards by 35 per cent, of nickel by 58 per cent, of live stock by 64 per cent, of hides by 77 per cent and of furs by 44 per cent. The comparison in each case is with the first four months of 1937.

Fortunately, economic conditions in other markets were not so depressed and important increases in exports to other markets of various types of products tended to offset these substantial declines in shipments to the United States. Thus, for instance, during the first four months of 1938, Canadian exports to the United Kingdom increased by 4 per cent as compared with the same period in 1937, while our exports to Australia and New Zealand increased by 35 per cent and to all empire countries by over 5 per cent. Similarly, if we take the exports of non-ferrous metals, other than gold, we find that during the first four months of 1938 total shipments to all countries were over 12 per cent in excess of those for the same period in the preceding year. Moreover, examination of exports of individual commodities to the British market for the last fiscal year as a whole shows such striking increases as 17 per cent in the case of bacon and hams, 33 per cent in the case of coarse grains, 86 per cent in the case of tobacco leaf, 49 per cent in the case of fresh and canned fruits and 27 per cent in the case of iron and steel products. As a result of these divergent trends in the trade with particular countries and in particular commodities, the reduction in our total merchandise exports during the first four months of this calendar year, when our economy was feeling the full brunt of the world depression, has been kept to what I regard as the very satisfactory figure of 9 per cent.

Before leaving this discussion of our export trade, it is essential to refer to an important decrease which is not the result of external influences. For the fiscal year ending March 31st last, our exports of wheat and wheat flour are down from the previous year by 43 per cent, the total amounting to only $139,000,000 as compared with $245,000,000 for the year 1936-37. This drastic decline reflects of course the failure of the western wheat crop, and with the small amount of wheat now in the country no improvement in this export can be expected until the new crop comes on to the market.

Canada's Balance of International Payments

From the figures I have given for total exports and total imports, it will have been noted that the balance of trade remained favourable to Canada during the fiscal year and amounted to $348,000,000 as compared with $448,000,000 during the preceding year. However, the calculations of our international balance of payments are made by the Dominion Bureau of Statistics on a calendar year rather than a fiscal year basis. For the calendar year 1937, their figures show a favourable merchandise balance of $212,000,000. Gold exported or earmarked established a further credit of $145,000,000. Visiting tourists are estimated to have spent no less than $290,000,000 in Canada during 1937, which is an increase of 13 per cent over the amount expended in 1936. After deducting expenditures of Canadians abroad, there emerges a net credit of $170,000,000 on account of the tourist trade which, by the way, it will be noted is substantially larger than the value of our total exports of wheat and flour during the fiscal year. Adding up these three items we get a total credit of $527,000,000 which was sufficient to enable us to meet all of our foreign obligations on account of interest and dividends as well as various miscellaneous debits, and at the same time enabled us to pay off foreign indebtedness or repatriate Canadian securities held abroad to an estimated amount of approximately $215,000,000. These facts indicate not only a highly favourable position for Canada in international payments during the past year but also a considerable strengthening of our ability to meet any strains that the future may bring.

Importance of Foreign Trade

All who have listened to this recital of the facts in connection with recent developments in our foreign trade will, I am sure, be impressed with how vulnerable our economy is to the impact of adverse external influences, and there may also be some who will question the wisdom of any substantial reliance upon foreign trade. There is no doubt about the high degree of vulnerability in our position. Whether we like it or not, our whole economy, including particularly our primary industries, is geared to the world economic machine and particularly to that of the British commonwealth of nations and that of the United States. It is thus much more than the mere friendly interest of a sister commonwealth or of a good neighbour which leads us to follow with anxious eyes the progress of economic conditions in these countries. This dependence on other nations inevitably follows from the simple fact that Canada is highly fortunate in possessing an abundance of what many other countries lack, namely, a rich and diversified treasure-house of agricultural, forest, and mineral resources. If we desire to capitalize these resources by specializing in their development and marketing the products abroad in exchange for commodities which we cannot ourselves produce or which we can only produce at greater cost, we must assume the risks inherent in the fact that our well-being will to a considerable extent be dependent upon the prosperity of our customers and upon the fluctuations in that prosperity. We can only avoid these risks, if we are content to place our economy on a self-sufficient basis. This would mean not only tremendous costs and wastes in the adjustment process but also a permanent and substantial lowering in the Canadian standard of living, not merely in times of economic depression but at all times. There are few in this country, I am confident, who are willing to pursue the mirage of national self-sufficiency. But, if that objective is not to be accepted, the course which should be followed by any government charged with the administration of affairs in this country is clear, and I submit it is the course which is represented by the policies which this government is following. In the field of external relations, it means not only such action on our part as may appropriately be taken to lessen the evils of international friction and political tension but also active cooperation in all efforts to re-open the markets of the world to the normal interchange of goods and services.

Domestic Factors

In emphasizing as I have done certain external and uncontrollable forces which have been influencing our economy, I would not have you think that I neglect or minimize the importance of the domestic factors. The fundamental fact that in this modern world no nation can live unto itself alone does not lessen, indeed it reinforces, the necessity for Canada to devote its maximum energies to the solution of its own internal problems. Concentration upon its domestic problems is the primary duty of any nation. It goes without saying that conditions favourable to economic expansion must be maintained. The fundamental structure of business in itself must be sound. Costs must be in the right relationship to prices. There must be a properly adjusted balance of factors within the price structure. Ample credit accommodation must be available for the needs of trade and for business expansion. Speculative enthusiasm must not be permitted to get out of hand. Maladjustments in the economy must not be allowed to develop. Above all, under our present economic system, there must be a prevailing atmosphere of confidence

in regard to our institutions, broad governmental politics and general conditions.

I have already expressed my own conviction that, measured by these tests, the Canadian economy during 1937 was in a sound position—that it disclosed no serious weaknesses which required the drastic corrective processes of a depression or even of a "recession." I shall now give some evidence to support this conviction but I do not wish to weary you with statistical details and shall confine myself to comment on some of the more important industries and factors which may have special significance for the outlook as to the immediate future.

Employment

In each of the last two years I have had to refer to the failure of employment to keep pace with the striking gains in business activity and to point out that this was a condition usually met with in the early stages of recovery from business depression. I am therefore pleased to be able to report that during 1937 the increase in the volume of employment was for the first time since 1929 more rapid than the rise in industrial production, and also that since the downward trend in business began last December employment has declined less rapidly than other business indices. Estimates by the Dominion Bureau of Statistics of the total number of wage earners employed in all industries show that the number in employment was higher in March, 1938, than in the corresponding month of the preceding seven years, and only slightly less than in March of 1929 and 1930. The estimated number of unemployed wage earners, including unemployables, was 456,000 in March, 1938, which was lower than in the same month of any year since 1931. The index prepared by the bureau based on reports from 10,550 firms employing over a million persons, rose from 110·4 on May 1, 1937, to 119·6 on October 1, 1937, and on May 1 of this year stood at 111·5, still about one per cent higher than a year ago. The trend disclosed by this index is confirmed by the figures showing the numbers on urban relief rolls. Preliminary estimates of the number of relief recipients in April show a total including all dependents of 1,038,000 persons, which represents a decrease of 121,000 since April, 1937. However, if we exclude, as we should, recipients of agricultural relief whose situation is a result of climatic rather than of economic conditions, we find that the number of persons on relief including all dependents declined from 833,800 in April, 1937, to 632,000 in April, 1938, a decrease of 201,800 persons or over 24 per cent during the period. Costs of urban direct relief have perhaps not been reduced proportionately with the decrease in numbers on relief but considerable progress has been made in many communities in securing a more effective control over expenditures.

The Construction Industry

I know of no better means of expanding employment in Canada to-day than by stimulating building activity. The construction industry is the most important of our capital or durable goods industries and it is the drastic fluctuations in this group of industries which largely account for the wide differences in general economic activity as between good and bad times. Purchases of consumers' goods maintain a fairly steady volume, but the durable goods industries tend to expand to abnormal proportions during boom periods and to lapse into comparative stagnation during depressions. Perhaps in no other industry is the range of fluctuation apt to be so great as in construction. It is difficult to exaggerate the bad effects which this extreme variability has upon the general welfare of the community. The reason will be obvious to anyone who takes the trouble to examine the magnitude of the dollar value of the products of the construction industry in normal times; the long series of industries which produce its raw and processed materials—lumber, iron and steel, cement, lime, brick, stone, glass, heating equipment, plumbing equipment and many others; the very large number of skilled craftsmen and unskilled labourers to whom it gives employment, both directly and indirectly; and the fact that its effects on employment and business activity ramify so widely in every community throughout the country. It has been frequently pointed out that this industry suffered most from the onset of the great depression, that it has been the most laggard of our major industries in recovering from the depression, and that its many branches include the occupations in which unemployment has been most heavily concentrated. In the eleven years from 1921 to 1931, the average annual value of all construction contracts awarded in Canada was $370,000,000 and the annual totals ranged, during that eleven year period from a low of $240,000,000 in 1921 to a high of $577,000,000 in 1929. During the worst year of the depression, 1933, the total dropped 73 per cent from the 11-year average to less than $100,000,000. From that low point the industry has been slowly recovering and during 1937 this upward movement was accelerated, total contracts awarded rising by 38 per cent over

1936 to $224,000,000. The increase of residential contracts by 31 per cent to $56,000,000 was very largely attributable to the stimulus provided by the Dominion Housing Act and the Home Improvement Plan. But, even with this increase, the total volume of construction during 1937 was still less than half the total for 1930, and construction during the first five months of 1938 again fell 25 per cent below the level of the corresponding period in 1937.

The experience of several countries with expansionist policies during the last few years has proven that only a rise in the rate of new investment can provide a durable basis for an upswing in business activity. Attempts to stimulate consumption by government expenditure or by suddenly improving labour conditions have been tried on more than one occasion but in every case they have been found wanting. They produced, it is true, an immediate temporary stimulus, but they did not awaken the more normal and permanent motive forces which are essential to continuing prosperity and they tended to put too heavy a burden upon production which ultimately produced an effect the reverse of what was intended. Furthermore, we have had several conclusive demonstrations of the principle that government expenditure to create or stimulate employment will not have beneficial results if it is carried on in such a way or on such a scale as to create an atmosphere of fear and uncertainty. It is of little use to prime the pump of business enterprise with government expenditure if at the same time we dry up the springs of private initiative which feed the well. It may be arguable as to whether a system of free enterprise is the most desirable economic and social system but as long as we believe in such a system—and few of us have seen any other system which we would be willing to accept as a substitute—we must follow policies that will enable it to work in accordance with its essential principles. The most important of these principles is that decisions as to whether the individual shall spend and consume, or shall save and invest, or shall save and hoard, are left to the individual's own initiative. If, therefore, the answers to the questions as to whether plants are to be built or extended, new houses are to be erected, and industry is going to expand or to stagnate, depend upon the decisions of tens of thousands of individuals who are free agents and not regimented sheep, it follows that governments must pursue policies which create confidence rather than fear and uncertainty—which give leadership and guidance and encouragement rather than stifle initiative and paralyze new enterprise. If in order to create employment we embark upon expenditures which create undue deficits, or if in any other way we show no sense of financial responsibility, we are certain to find that the relatively small amount of employment which we create is much more than offset by new unemployment resulting from paralysis of private enterprise. Under our system at least, government expenditures cannot take the place of private enterprise, and I do not think that our people are prepared to accept the alternative system of regimentation under which all or practically all expenditures would be government expenditures.

It was this set of principles and the set of facts which I have given in regard to the construction industry which led the government to ask parliament's approval of the Municipal Improvements Assistance bill and of the comprehensive housing program which I had the privilege of introducing the other day. Two phases of the tripartite housing program seek to restore a more normal volume of construction activity by removing obstacles which have hampered individual initiative and by providing facilities and incentives which are designed to bring into full play the energies and resources of the various branches of the industry itself. The third phase provides for a larger measure of governmental assistance but this is in the field of low-rental housing, where such direct governmental assistance can be given without the risk of subsidizing competition to private builders and thus discouraging more building than is stimulated. Moreover, the program for the most part involves government aid by way of loan for productive undertakings of a self-liquidating character. If there is, as there undoubtedly will be, a proportion of loss in respect of these loans, that loss will be amply compensated for not only by the employment created during the present emergency but also by the permanent improvement in the living conditions of our people.

I said the other day that the program constituted a challenge to the building industry. I repeat that challenge to-day with all the emphasis I can command. I wish to add that I am confident the challenge will be accepted. If it is, the contribution which it can make to the elimination of unemployment, to the stimulation of our whole economic life and to the expansion of the national income will be difficult to exaggerate.

Capital Goods Industries

While I am dealing with one of our major durable goods industries, let me say that activity in our factories producing capital or producers' goods was one of the brightest

spots in the manufacturing field during the past year. The output of industries engaged in the manufacture of producers' goods showed a gain of 13 per cent in 1937 over the preceding year. The primary iron and steel industry reflected the revival in the domestic demand for industrial equipment and durable goods as well as a brisk demand from the United Kingdom. The output of steel ingots recorded a gain of nearly 26 per cent over the preceding year, while the increase in pig iron production was over 32 per cent. The index of employment in this industry averaged 18 per cent higher than in the previous year. Since the first of the year, activity has declined but it is interesting to note that while in the United States the steel industry is operating at less than 30 per cent of capacity, the Bureau's index of steel production in Canada for April was 161·7 and for pig iron production 108·5 as compared with averages of 178·1 and 148·7 respectively for the boom year 1929.

The Mining Industry

The industry, however, which during the past year has been responsible, and is still to-day responsible, for the greatest stimulus to an upward movement in our economy is the mining industry. In 1937 for the third consecutive year it established a new record in the total value of its output. Reflecting in part a higher level of prices during most of the year, total production was estimated at $457,000,000, an increase of 26 per cent over the 1936 output. The dollar output of copper rose by 77 per cent, of nickel by 36 per cent and of lead by 43 per cent. Production of gold increased by 9 per cent to a total of $143,000,000, or more than double the output of eight years ago. While prices, particularly of base metals, have been substantially lower this year, and while the exports of nickel to the United States have been affected by the depression in that country, the performance of the mineral industry during the first four months of this year in the face of declining trends elsewhere, has been a truly remarkable one. The Bureau's index of physical output of the mines rose by 18 per cent from January to April and the figure for April was almost 15 per cent higher than that for April, 1937. Particularly noteworthy were the increases recorded in April of this year which would appear to forecast the impetus to general economic recovery which may be expected from this industry during the balance of the year. In this connection it is estimated that thirty new gold mills will come into operation during 1938, increasing existing capacity by more than 11 per cent.

Forest Products Industries

Less encouraging has been the record during the last few months of that other great primary industry which is based on the products of our forests. During 1937, it is true there was a rapid expansion of production in its various branches, but this rapid pace has been slowed down materially because of a combination of factors, including the slackening of the British building boom, restricted demand from the United States and from the far east, severe weather during the winter months in British Columbia, and an over-accumulation of stocks in at least one branch of the industry. Newsprint output expanded during 1937 to a record high point, not far from the practical limit of capacity of the mills, and reached a total volume for the year more than 14 per cent in excess of that for 1936. But in the third quarter an excess of stocks in publishers' hands in the United States began to appear and sharp curtailment of Canadian production became necessary. However due to the substantial falling off in the United States' demand consequent upon the business depression, the industry has made relatively slow progress in disposing of accumulated stocks of newsprint. During the first four months of 1938, total output of newsprint mills in Canada was down 27 per cent from the corresponding period of 1937, and the industry will in my opinion do well if it is able to operate for the year as a whole on an average basis of about 65 per cent of capacity.

Other branches of the forest industry have fared considerably better. Logging operations required an expansion in number of employees of 36·5 per cent during 1937 while saw milling and paper industries recorded an advance of 11 per cent. Timber scaled in British Columbia which is a good index of saw mill operations showed a gain of 7·5 per cent while the exports of all wood and paper products rose by 25 per cent to a total of $263,000,000. During the winter months, however, lumbering operations were on a smaller scale than during the previous season and the general level of activity to-day is probably substantially below that of a year ago. On May 1st, employment in logging operations was 12 per cent higher than on May 1st, 1937, but in the rough and dressed lumber industries it was almost 9 per cent lower. Exports of planks and boards decreased by about 20 per cent in the first four months of 1938. It is difficult to forecast the outlook for lumber demand from foreign markets during the balance of the year, but the sharp decline in ocean freight rates to United Kingdom ports from the excessive levels of 1937 will place British Columbia lumber on a more advantageous

basis in that market in competition with Baltic timber. The lumber industry should also be one of the chief beneficiaries of expanding activity in the domestic construction field which the government's housing program is designed to bring about.

The National Income

Summing up the net production of goods and services in all fields of economic activity, we reach that most significant of the measures of national well-being, namely, the total national income. By national income I mean not the revenues of the dominion government but the aggregate of the individual incomes of all the people. Unfortunately, the statistics of our national income, although the most important of all statistics for purposes of analysis and policy determination, leave much to be desired both in their adequacy and in the time at which they become available. I believe that the methods used by the Bureau in compiling their estimates are being revised and their compilations for the year 1937 have not yet been completed. Preliminary estimates from unofficial sources, however, appear to indicate that Canada's national income in 1937 amounted to $4,830,000,000, which is an increase of 13 per cent over the Bureau's revised estimate for 1936.

Wholesale Prices

I turn now to a number of considerations which are primarily financial in character. Last July, the index of the wholesale prices of commodities reached a high point for the recent movement, only 12½ per cent below the average level which prevailed in 1926. Since that time there has been a gradual downward tendency, the index for April representing a drop of almost 6 per cent from the high of last July. This 6 per cent compares with a decrease of 9 per cent in the United Kingdom and of about 10 per cent in the United States. During the last two years, however, the disparities which had previously been an unsound and retarding factor in the Canadian price structure have been largely corrected. For instance, it is significant to note that while the index of April of this year for all commodities stood at 82·3, that for Canadian farm products was 82·5 and for fully and chiefly manufactured goods 81·3. In other words, the normal equilibrium between farm prices and other prices has been restored.

The Security Markets

The decline in common stock prices has been drastic. Canadian stock markets felt the full blast of the hurricane which swept the New York stock exchange last autumn and security prices in the two countries are about on a par. This is true despite the highly satisfactory earnings of Canadian business enterprises as a whole last year. A recent listing of the net earnings of 522 corporations for the fiscal year ending in 1937 gives a total of over $450,000,000, which is 17 per cent above the aggregate net earnings of the same corporations for the previous year. It is only natural, however, that our financial markets should move closely in sympathy with New York. Apart from the important relationships in trade and commerce to which I have already referred, securities of a value of hundreds of millions of dollars flow annually north and south between the financial centres on this continent. Elaborate machinery has been developed to facilitate these transactions, and the daily intercommunication between brokers and financial houses has its effect in tending to create the basis for a common outlook on business prospects. Obviously, this has dangers as well as advantages. Depression psychology may affect our financial and business leaders when our own conditions do not justify it, and what is more important, if the North American investor for any reason loses confidence in any phase of the Canadian position, capital may fly from Canada overnight and our own securities held abroad may be dumped on our markets in enormous quantities. Fortunately there is no reason for the American investor to lose his undoubted faith in Canada which has been grounded in long and satisfactory experience, but those in charge of financial affairs in this country must always keep such considerations in mind.

The Bond Market

The bond market in Canada has given an infinitely better account of itself than the stock market during the past year. During 1937, bond issues were sold by dominion, provincial and municipal authorities and by private corporations to an aggregate amount of $701,700,000, of which $225,600,000 was for new cash and $476,100,000 for refunding purposes. During the first quarter of 1938, the total offerings were $162,100,000 of which $76,800,000 was for cash and the remainder for refunding. These are substantial totals for a country of small population and indicate a healthy functioning of the capital markets. To-day the interest yields of dominion bonds are lower than they have ever been before in our history except for a short period in 1936. In another connection I shall give details of the favourable basis on which we were able to carry out a heavy volume of dominion financing last year.

If hon. members will examine the statistics published by the League of Nations on the percentage yield of government bond issues they may be surprised to find that of all the countries of the world only the United States,

Great Britain, Holland, Sweden and Switzerland show the obligations of their respective governments selling on as low a yield basis as the obligations of the government of Canada. This is all the more remarkable when you remember that these are great creditor countries while Canada is one of the greatest debtor countries in the world, that is to say, has more foreign capital invested within her borders than most other countries. In making such comparisons, care must be taken of course to see that maturity dates, coupon rates and tax exemption features are reasonably comparable. On a recent date the quotations showed the following yield basis for a government bond of 17 to 19 year term in the domestic markets of the respective countries: Canada, 3·01 per cent; United Kingdom, 3·09 per cent; Australia, 3·76 per cent; New Zealand, 4·31 per cent; South Africa, 3·45 per cent; and the United States, 2·56 per cent,—but that United States issue is free of income tax, and therefore is not strictly comparable. No comparable quotation could be secured for France, but her perpetual rentes were selling in March on a 4·43 per cent basis while Canada's perpetuals were on less than a 3·40 per cent basis.

Interest Rates on Government Bonds

I have also caused to be made certain calculations showing for the latest available date the average rate of interest being paid on the outstanding debt of several important countries. In the case of Canada, the average rate on our outstanding debt including treasury bills and allowing for the effects of the conversion issue floated in London last January, was 3·53 per cent. As the volume of outstanding treasury bills and other short term debt varies considerably as between different countries and as the information regarding this short term debt is not available in all cases, I will use for purposes of comparison the average rate on our Canadian debt excluding treasury bills. This was 3·67 per cent as at March 31, 1938. Contrast this percentage with the following figures for other countries: United Kingdom, 3·56 per cent; United States, 2·69 per cent, but again I must point to the tax free feature of the United States obligations; New Zealand, 3·79 per cent; South Africa, 3·92 per cent; Australia, 3·98 per cent; and France, 4·36 per cent. Of this comparison I think Canadians have real reason to be proud.

It may be of interest, Mr. Speaker, to make a further comparison with the Commonwealth of Australia. There is frequent controversy in this country as to whether we should have followed the plan adopted by Australia in 1931 when the interest rate on outstanding government bonds was cut by an average of 22½ per cent. I shall not undertake to pass judgment on the wisdom of such a policy for Canada in 1931 or 1932 but I do wish to point out that as at June 30, 1931, before the conversion operation took place in Australia, the average rate of interest on Australia's outstanding debt was 5·25 per cent and as at June 30th last, it was 3·93 per cent, a decrease therefore in the average rate on the Australian debt of 25·1 per cent. On the other hand the average rate of Canada's debt outstanding as at March 31, 1931 was 4·98 per cent, and to-day the corresponding rate is 3·53 per cent, a decrease in the case of Canada of 29·1 per cent.

In other words, by following a different and more normal policy, Canada has been able to secure a reduction in her average rate of interest by a larger percentage and to a lower relative figure.

To keep the record straight, I wish also to mention two additional facts. First, the arbitrary reduction in interest was applied only to domestic holders of government bonds, a policy which it was easy to enforce in Australia because of the established practice of issuing bonds in registered form rather than bonds payable to bearer, and bonds payable optionally in two or more currencies. Secondly, the policy was only one part of a comprehensive program designed to reduce all costs, including wages, by an approximately equal proportion.

Moreover, the Australian conversion offer was originally on a voluntary basis and it was only after 91 per cent of the bondholders had voluntarily accepted that the conversion was made compulsory on the 3 per cent who had dissented and the 6 per cent who had not been heard from. Canada has followed consistently the policy of offering voluntary conversions to holders of our bonds as these bonds become due or callable. This policy has amply justified itself. I have already shown the extent to which we have succeeded in reducing the average rate of interest on our outstanding debt. But rates of interest represent small figures and their full significance may not be apparent. Let me state the facts in another way. As at March 31, 1938, our total bonds, debentures and treasury bills outstanding amounted to approximately $3,315,000,000. This represents an increase since 1930 of $1,031,000,000 due mainly to the emergency expenditures incident to the depression. The annual interest charge, which represents the burden of this debt as at March 31 last, was $117,063,000 which was less than the corresponding figure at the end or any other year since the close of the war, with the single exception of March 31, 1930.

The interest requirement on the funded debt outstanding on the latter date was $114,577,000. It should be remembered, however, that since 1930 we have invested a substantial sum in additional active loans and investments which as at March 31, 1938, accounted for an offsetting credit to the treasury of $5,470,000 in the form of interest receivable. If this sum be deducted, the net interest burden on the funded debt is less than in any year since the great war, in spite of the increase in the public debt itself of over $1,000,000,000 since 1930.

Let me now sum up the argument I have been developing. In the first place we have succeeded in getting our interest rates on current borrowings down to levels comparable with those of the oldest and wealthiest countries in the world. Secondly, we have been able to reduce the average interest rate on our total outstanding funded debt to approximately 3½ per cent, although much of that debt was created in years past when interest rates were substantially higher than they are to-day, again a level comparable with the oldest and wealtiest countries. Finally, in spite of the fact that during the depression years our funded debt has had to be increased by over a billion dollars, the burden of that debt in the form of its annual interest charge is less than the payment required to service our smaller debt in any year since the war except 1930. All this I submit is no small achievement for a young and debtor nation. It reflects careful administration of the government's finances, a persistent endeavour to achieve a budgetary balance at the earliest practicable date, a healthy functioning of the capital markets, and the results of an easy money policy efficiently carried out.

Monetary Policy

There are some, of course, who appear to believe that the government should not pay interest at all or, indeed, should issue debt free money to finance its expenditures or to retire its interest bearing debt or to do both of these things. It is incredible that this hoary fallacy should persist after so many historical demonstrations of its devastating possibilities. Perhaps I underestimate the insidious appeal of a program which promises to make something out of nothing, although I must say that for no one more than for a minister of finance should such a program have seductive charm. How much easier my task would be if I could draw on the accumulated savings of the Canadian people without paying interest thereon or if indirectly I could do the same thing by issuing credit against our natural wealth, that is, against the resources of farm and forest and mine and factory now owned by the Canadian people as individuals and not by the dominion government. I am sometimes criticized because I do not accept the so-called "new economics," which in fact is centuries old. It dates back to the first monarch who, finding it difficult to replenish the royal coffers by taxation, tried to filch the needed funds from the pockets of his subjects by debasing his currency. When first introduced this currency debasement gave some temporary stimulus to trade, because there were in circulation more of the sovereign's coins, albeit each had a lower intrinsic value. But when the smoke cleared away the net result became evident, namely, that the sovereign had obtained a larger share of the product of his people's labour. It may be that our taxation system is not the most scientific, but at least the attempt has been and is being made to make it progressively more equitable. The kind of device to which I have been referring takes many different forms, but there is nothing more certain than this, that in any of its forms it constitutes the most unjust and most inequitable type of taxation that could be devised. Not only that, but the inflationist expansion of currency and credit which it contemplates is bound to initiate unhealthy speculative activity and to result in overexpansion of particular industries. When maladjustments become too pronounced, the speculative boom always collapses and depression sets in. Surely we have suffered too much, Mr. Speaker, from the inflationist experience of the war and its sequel to deliberately embark upon such a program again.

This is not the way of sound and healthy prosperity. On a recent occasion in the house I had the privilege of discussing the monetary policy which has been followed in this country in recent years and of showing why in my opinion that policy was well conceived. It has been an easy money policy designed to offset any deflationary tendencies and to ensure that ample currency and credit would be available to meet the needs of industry and trade. Its general objective has been to promote the maximum possible sustained level of productivity and the minimum possible level of unemployment. It is a tribute to the skill with which this policy has been administered that while currency and credit have been expanded at a quite rapid rate, the substantial rise in production and trade which occurred has been consistent and has taken place without speculative excesses or other unsound features developing in our economy. To monetary policy must be given at least some share of the credit for the health and soundness of our internal economic conditions which I have already reported. We may feel confident, Mr. Speaker, that it will adjust itself with equal efficiency to the changing conditions that may arise in the future.

Economic Outlook

In this review of current economic conditions during the past year, I have tried to indicate the divergent influences at work. The net result of these conflicting forces will determine the course of Canadian business during the remainder of this year. On the unfavourable side we find two external factors which for us are uncontrollable and unpredictable. I refer to the progress of business depression abroad and to developments in the field of international relations. It is to be hoped that business in the United States is now dragging on the bottom and that the steps which have been and are being taken will promote an up-turn before the end of this year. In the United Kingdom and other European countries, the acceleration of the armaments program should exert a favourable short-term influence, although none of us look forward with confidence to the more distant results of a program which involves so heavy a concentration of the resources of the leading nations upon preparation for war. In the political field it is even more difficult to make predictions. Realism compels us to face frankly the fact that the potential dangers are indeed great. We can only hope that the forces which are striving to prevent war, while maintaining freedom, will achieve success.

Any improvement in conditions abroad will strongly reinforce the influence of the favourable forces which are at work within our own country. As I have already stated, our internal economy is sound, our price structure is in reasonable balance, ample credit accommodation is available for further expansion, and our people need not be affected by fear and uncertainty. Production in our major industries has shown what is relatively a moderate decline in the face of depressed conditions elsewhere and since February our index of the physical volume of business has been tending upwards. Moreover, there are now important forces at work which in my opinion should give a vigorous impetus to further recovery later in the year. Most important of these is the improved prospect for a good wheat crop and for good agricultural conditions generally. The mining industry may also be counted on to provide a further stimulus. Finally, I am confident that as a result of the government's program in relation to housing, municipal improvements, and national conservation and development generally, we may expect to see during the next few months the beginning of a more vigorous revival in the construction industry and the many industries which depend upon it. These are all powerful influences making for recovery, and if backed by the wholehearted cooperation of all elements in our population, they should make the current year a reasonably satisfactory one.

II

GOVERNMENT ACCOUNTS, 1937-38

Turning now, Mr. Speaker, to the government accounts, I am pleased to state that, because of the late date at which the budget is being brought down, I am able to present the figures for the past fiscal year in practically their final form instead of making the provisional estimates which are usually necessary. Following the procedure of last year, I shall first, with the permission of the house, place on Hansard a number of tables giving a complete summary of revenues and expenditures under the usual categories and of the over-all deficit or increase of net debt for the fiscal year 1937-38, together with comparative figures for the four preceding fiscal years:

STATEMENT OF REVENUES FOR THE LAST FIVE FISCAL YEARS

(000 omitted)

—	1933-34	1934-35	1935-36	1936-37	Estimated 1937-38
	$	$	$	$	$
Tax Revenues—					
Customs import duties	66,305	76,562	74,004	83,771	93,456
Excise duties	35,494	43,190	44,410	45,957	52,037
War tax revenues—					
Banks	1,336	1,369	1,281	1,210	1,107
Insurance companies	742	750	761	775	867
Income tax	61,399	66,808	82,710	102,365	120,366
Sales tax	61,392	72,447	77,552	112,832	138,054
Manufacturers', importations, stamps, transportation taxes, etc	45,184	39,745	35,181	39,641	42,765
Tax on gold	—	3,573	1,413	—	—
Total revenue from taxes	271,852	304,444	317,312	386,551	448,652

STATEMENT OF REVENUES FOR THE LAST FIVE FISCAL YEARS—*Concluded*

(000 omitted)

—	1933-34	1934-35	1935-36	1936-37	Estimated 1937-38
	$	$	$	$	$
Non-Tax Revenues—					
Canada Grain Act	1,236	1,205	1,213	1,192	680
Canada Gazette	56	47	49	48	47
Canals	878	838	890	1,004	1,866
Casual	3,622	4,337	4,636	6,276	6,598
Chinese revenue	6	6	6	7	2
Electricity	440	485	542	646	692
Fines and forfeitures	178	90	295	134	209
Fisheries	39	43	42	56	60
Gas inspection	76	96	91	93	88
Insurance inspection	149	139	147	152	162
Interest on investments	11,148	10,963	10,614	11,231	13,120
Lands, Parks and Forests	419	516	458	478	541
Marine	208	218	222	263	336
Mariners' fund	188	181	187	205	206
Military college	20	20	20	20	20
Militia pensions revenue	165	174	178	187	194
Ordnance lands	18	16	16	15	16
Patent and copyright fees	429	426	455	464	452
Penitentiaries	98	74	68	62	63
Post Office	30,893	31,248	32,508	34,275	35,546
Premium, discount and exchange	—	752	36	—	27
Public Works	250	254	251	274	318
Radio Licences	1,291	1,487	1,574	(1) 990	(1) —
R.C.M.P. officers' pensions	12	9	11	10	11
Weights and measures	400	407	401	396	393
Total non-tax revenue	52,219	54,031	54,910	58,478	61,647
Total ordinary revenues	324,071	358,475	372,222	445,029	510,299
Special Receipts—					
Sundry receipts	409	3,397	320	(2) 8,464	3,009
Other Credits—					
Refunds on capital account	90	80	27	616	1,542
Credits to non-active accounts	91	21	27	45	819
Net credit resulting from various adjustments in Railway accounts authorized by Canadian National Railway Capital Revision Act, 1937	—	—	—	—	1,023
Total Special Receipts and Credits	590	3,498	374	9,125	6,393
Grand Total Revenue	324,661	361,973	372,596	454,154	516,692

(1) As from Nov., 1936, radio licence fees deposited to credit of The Canadian Broadcasting Corporation.
(2) Includes $8,000,000 from Canadian Wheat Board taken into the accounts as an offset, in part, to the disbursements in 1935-36 *re* losses on 1930 wheat pool and stabilization operations.

STATEMENT OF EXPENDITURES BY MAJOR CATEGORIES AND BY DEPARTMENTS FOR THE LAST FIVE FISCAL YEARS

(000 omitted)

—	1933-34	1934-35	1935-36	1936-37	Estimated 1937-38
	$	$	$	$	$
Ordinary expenditures—					
Agriculture	6,996	7,107	9,399	8,741	9,017
Auditor General's Office	376	377	429	423	463
Civil Service Commission	221	221	259	305	358
External Affairs, including Office of Prime Minister	974	1,427	1,290	1,341	1,450
Finance—					
Interest on Public Debt	139,725	138,533	134,549	137,410	132,118
Cost of Loan Flotations	2,550	2,890	3,577	3,839	4,555
Premium, Discount and Exchange (net)	167	—	—	400	—
Subsidies to Provinces	13,728	13,769	13,769	13,735	13,735
Special Grants to Provinces	1,600	1,600	3,975	3,225	7,475
Other Grants and Contributions	396	467	736	540	580
Civil pensions and superannuation	1,032	943	854	787	995
Government contribution to Superannuation Fund	1,986	1,948	1,875	2,019	2,065
Old Age Pensions	12,314	14,942	16,764	21,149	28,653
General Expenditure	3,152	3,939	3,735	3,579	3,635
Fisheries	1,596	1,641	1,710	1,691	1,850
Governor General's Secretary's Office	136	133	138	143	144
Insurance	152	156	163	172	187
Justice	2,711	2,718	2,748	2,773	2,507
Penitentiaries	2,677	2,667	2,377	2,372	2,577
Labour	561	581	660	720	706
Technical Education	129	91	99	76	49
Government Annuities—Payments to maintain reserve	184	146	272	541	(1) 5,000
Legislation—					
House of Commons	986	1,796	1,486	1,760	1,516
Library of Parliament	69	71	76	75	79
Senate	286	491	491	587	536
General	62	95	55	73	57
Dominion Franchise Office	—	1,545	498	53	76
Chief Electoral Officer, including elections	32	146	1,089	72	45
Mines and Resources—					
Administration	—	—	—	—	(2) 1,518
Immigration and Colonization	1,374	1,269	1,322	1,313	1,163
Indian Affairs	4,380	4,362	4,869	4,904	4,897
Interior	2,857	2,750	2,939	2,887	—
Lands, Parks and Forests	—	—	—	—	1,875
Surveys and Engineering	—	—	—	—	941
Mines and Geological Survey	909	965	1,040	1,135	658
Movement of Coal and Domestic Fuel Act	2,772	2,124	2,103	2,277	2,521
National Defence—					
Militia Service	8,773	8,853	10,141	11,346	17,223
Naval Service	2,171	2,222	2,380	4,763	4,372
Air Service	1,685	2,258	3,777	5,822	10,018
Sundry Services	847	847	879	992	1,147
National Revenue (including Income Tax)	10,360	10,166	10,963	11,205	11,870
Pensions and National Health—					
Treatment and after-care of returned soldiers	9,571	10,127	11,060	11,579	12,152
Pensions, War and Military	42,923	43,232	42,790	43,067	42,240
Health Division	802	809	993	873	914
Post Office	30,554	30,252	31,438	31,906	33,762
Privy Council	49	46	46	45	48
Public Archives	157	209	165	160	170
Public Printing and Stationery	172	368	169	169	161
Public Works	10,827	9,905	12,945	14,519	12,385
Royal Canadian Mounted Police	5,528	5,970	6,165	5,635	6,308
Secretary of State	387	395	705	655	692

(1) This represents a tentative estimate pending definitive calculations by Department of Labour on an actuarial basis.

(2) Prior to 1937-38 general administration expenses were not segregated from other expenditures of the respective Services of the Departments which were amalgamated to form the Department of Mines and Resources and the Department of Transport.

STATEMENT OF EXPENDITURES BY MAJOR CATEGORIES AND BY DEPARTMENTS FOR THE LAST FIVE FISCAL YEARS—*Continued*

(000 omitted)

—	1933-34	1934-35	1935-36	1936-37	Estimated 1937-38
	$	$	$	$	$
Ordinary expenditures—*Concluded*					
Soldier Settlement	810	746	762	806	801
Trade and Commerce	3,007	3,057	3,458	5,523	4,070
Canada Grain Act	1,759	1,679	1,848	1,739	1,675
Mail Subsidies and steamship subventions	2,221	2,274	2,426	2,120	2,029
Transport—					
Administration	—	—	—	—	(1) 358
Air Service	—	—	—	—	(2) 2,961
Marine	5,439	5,742	5,857	5,614	4,308
Canadian Broadcasting Corporation	1,025	1,249	1,500	878	—
Railways and Canals	3,315	4,581	4,250	4,019	3,927
Maritime Freight Rates Act	1,989	2,529	2,348	2,506	3,182
Railway Grade Crossing Fund	310	275	128	54	180
Total ordinary expenditure	351,771	359,701	372,539	387,112	410,954
Capital Expenditure					
Canals	1,986	338	458	52	—
Railways	754	526	287	203	71
Public Works	3,840	6,243	5,799	3,237	4,359
Total capital expenditures	6,580	7,107	6,544	3,492	4,430
Special Expenditures					
Unemployment Relief Act, 1930	4	2	26	—	—
Unemployment Relief Act, 1931	564	52	26	—	—
Unemployment Relief Act, 1932	6,948	399	111	—	—
Unemployment Relief Act, 1933	28,382	2,420	494	—	—
Unemployment Relief Act, 1934	—	49,114	1,152	—	—
Unemployment Relief Act, 1935	—	—	48,027	—	—
Special Supplementary Estimates—					
Administration—Relief Acts, 1936 and 1937	—	—	—	194	378
Grants-in-aid to Provinces	—	—	—	28,930	19,493
Dominion share of joint Dominion-Provincial projects	—	—	—	12,692	8,841
Dominion Projects	—	—	—	23,554	13,911
Transportation facilities into mining areas	—	—	—	1,221	1,324
Railway Maintenance Relief Work	—	—	—	2,662	—
	35,898	51,987	49,836	69,253	43,947
Western Drought Area Relief—					
Direct Relief	—	—	—	5,144	11,925
Feed and fodder and freight thereon	—	—	—	3,517	11,352
Freight charges on movement of cattle	—	—	—	90	—
Expenses of marketing cattle	—	—	—	—	337
Purchase and distribution of foodstuffs	—	—	—	—	971
	—	—	—	8,751	24,585
Public Works Construction Acts	—	8,673	29,581	—	—
1930 Wheat Crop Equalization Payments Act	—	—	6,600	—	—
Loss on 1930 Wheat Pool and stabilization operations—					
Payment to Canadian Wheat Board of net liability assumed as at Dec. 2, 1935	—	—	15,856	—	—
Loss on 1930 oats pool under guarantee of bank advances to Canadian Co-operative Wheat Producers, Limited	—	—	174	—	—
Total special expenditures	35,898	60,660	102,047	78,004	68,532

(1) Prior to 1937-38 general administration expenses were not segregated from other expenditures of the respective Services of the Departments which were amalgamated to form the Department of Mines and Resources and the Department of Transport.

(2) Prior to 1937-38 expenditures on civil aviation, now the Air Service Branch of the Department of Transport, were included under expenditures for the Air Service Branch of the Department of National Defence.

STATEMENT OF EXPENDITURES BY MAJOR CATEGORIES AND BY DEPARTMENTS FOR THE LAST FIVE FISCAL YEARS—*Concluded*

(000 omitted)

—	1933-34	1934-35	1935-36	1936-37	Estimated 1937-38
	$	$	$	$	$
GOVERNMENT OWNED ENTERPRISES					
Losses charged to Consolidated Fund—					
Canadian National Railway System, ex-eastern lines	52,264	42,590	41,796	37,449	37,882
Eastern lines	6,692	5,818	5,625	5,854	4,464
Canadian National Steamships	—	—	270	—	—
National Harbours Board	—	—	1,126	250	289
Trans-Canada Air Lines	—	—	—	—	111
Total charged to consolidated fund	58,956	48,408	48,817	43,553	42,746
Loans and advances non-active—					
Canadian National Steamships	(1) 14	487	(1) 333	(1) 1,754	104
National Harbours Board	2,110	1,242	2,456	2,419	1,983
Total non-active advances	2,096	1,729	2,123	665	2,087
Total government-owned enterprises	61,052	50,137	50,940	44,218	44,833
OTHER CHARGES					
Write-down of assets chargeable to Consolidated Fund—					
Reduction in soldier and general land settlement loans	1,766	469	488	628	750
Yearly established losses in seed grain and relief accounts—Department of Mines and Resources	91	21	27	44	14
Cancellation of Canadian Farm Loan Board—Capital Stock	—	—	—	20	10
Province of Manitoba Treasury Bills	—	—	—	—	805
Non-Active Accounts—					
Canadian Pacific Railway advances (Relief Acts)	1,000	—	—	—	—
Active assets transferred to non-active	—	11	—	(2) 18,487	139
Total other charges	2,857	501	515	19,179	1,718
Grand total expenditures	458,158	478,106	532,585	532,005	530,467

(1) Credit. (2) Dominion contribution to Voluntary Debt Adjustment Program effected in Provinces of Manitoba and Saskatchewan respecting Drought Area Relief that was financed by the Dominion to January 1, 1935—Manitoba $805,000, Saskatchewan $17,682,000.

SUMMARY OF REVENUES AND EXPENDITURES

(000 omitted)

Ordinary expenditures	351,771	359,701	372,539	387,112	410,954
Ordinary revenues	324,071	358,475	372,222	445,029	510,299
Deficit (−) or surplus (+) on ordinary account	−27,700	−1,226	−317	+57,917	+99,345
Special expenditures	35,898	60,660	102,047	78,004	68,532
Less special receipts	409	3,397	320	8,464	3,009
Balance	35,489	57,263	101,727	69,540	65,523
Add—Capital expenditures	6,580	7,107	6,544	3,492	4,430
" Government Owned Enterprises	61,052	50,137	50,940	44,218	44,833
" Other charges	2,857	501	515	19,179	1,718
	105,978	115,008	159,726	136,429	116,504
Less other credits	181	101	54	661	3,384
	105,797	114,907	159,672	135,768	113,120
Add deficit or deduct surplus as above	27,700	1,226	317	57,917	99,345
Over-all deficit or increase of direct net debt	133,497	116,133	159,989	77,851	13,775

Revenues, 1937-38

With regard to revenues for the fiscal year 1937-38, the last fiscal year, our revenues from taxation and all other sources aggregated $516,692,000. This total exceeded that of the previous year by some $62,538,000, and surpassed by $55,835,000 the previous high total of the fiscal year 1928-29. The extent of our recovery from the low point of the depression is strikingly illustrated by the fact that our total revenue for 1937-38 represented an increase of more than 65 per cent over that for the low year 1932-33.

Total revenue from taxation amounted to $448,652,000, and exceeded the total for last year by over $62,000,000. Every major tax source contributed to this increase.

The sales tax for the second successive year led the field as a revenue producer. The total of $138,054,000 was $25,222,000 in excess of the previous year, and this increase resulted almost solely from a heavier turnover of merchandise and a higher price level, as the rate of tax has remained unchanged since May 1, 1936.

The income tax, which along with the sales tax now provides over one-half of our total tax revenue, was the second largest producer. Receipts from this source amounted to $120,366,000, an increase of $18,000,000 over last year, and much the highest total on record. There is no more conclusive evidence, Mr. Speaker, of the substantial improvement in both individual and corporate incomes. Of the total receipts, $69,769,000 was derived from corporations, $40,445,000 from the tax on individual incomes and $10,152,000 from the five per cent tax on interest and dividends.

Excise duties, levied principally on liquor and tobacco, increased $6,080,000 over the previous year, to a total of $52,037,000.

Customs duties accounted for $93,456,000, a substantial increase over last year when the total was $83,771,000. Although this revenue falls far short of previous high totals in 1929 and 1920, it must be noted that the proportion of imports entering this country entirely free of duty is larger at the present time than it has been since the turn of the century. In the two high revenue years mentioned, 1929 and 1920, for example, duty-free imports accounted for only about one-third of the total, whereas last year and the year before free imports amounted to almost one-half of our total imports.

Special excise taxes, of which the three per cent tax on imports is the most important as a revenue source, showed an increase of $3,124,000 over the previous year, the total receipts amounting to $42,765,000. The bank note circulation tax continues to decline from year to year due to the statutory decreases in the note circulation of the chartered banks.

Non-tax revenues, that is to say, the revenues derived from investments and from various departmental services, aggregated $61,647,000 during 1937-38, and increase of $3,169,000 over the previous year. This increase took place despite the fact that radio licence fees, previously shown as non-tax revenue, were eliminated from the government's accounts in 1937-38 and credited directly to the Canadian Broadcasting Corporation. The largest single item in this group of non-tax revenues is Post Office receipts which totalled $35,546,000, an increase of $1,271,000 over 1936-37. The nominal surplus on Post Office operations is estimated at $1,784,000. The other major source of non-tax revenue, interest on investments, totalled $13,120,000, as compared with $11,231,000 during the preceding year. This increase is largely accounted for by the receipt of $1,700,000 from the Canadian National Railways representing interest paid on capital advances made to the railway by the government. It will be remembered that payment of interest on these advances was provided for in the C.N.R. Capital Revision Act passed at the last session, so that this represents a new revenue item in our accounts.

Special receipts and other credits for the past fiscal year totalled $6,393,000, as compared with $9,125,000 in the previous year. The exceptionally large figure for 1936-37 was accounted for by the $8,000,000 payment from the Canadian Wheat Board for which there is no counterpart in the year under review. The total this year is comprised mainly of refunds on relief and capital expenditures and a net credit of $1,023,000 resulting from adjustments made in the railway accounts under authority of the C.N.R. Capital Revision Act.

Expenditures, 1937-38

In dealing with expenditures, I shall, for the purpose of analysis and comparison with previous years, use the five main categories in which expenditures are now classified in the public accounts, but I wish again to emphasize the importance of concentrating our attention on the aggregate of our expenditures of all kinds, and on our over-all deficit rather than on ordinary expenditures and the surplus or deficit on ordinary account.

ORDINARY EXPENDITURES

The ordinary expenditures for the year totalled $410,954,000, an increase of $23,842,000 over the previous fiscal year. As ordinary

revenues amounted to $510,299,000, the so-called surplus on ordinary account was almost $100,000,000. As I have already stated, however, this surplus on ordinary account has only slight significance under present conditions which require substantial expenditures for relief and other purposes.

The largest increase in ordinary expenditures was accounted for by the new defence program initiated last year. Total expenditures of the Department of National Defence during 1937-38 amounted to $32,760,000, an increase of $9,837,000 over the previous year. The dominion's share of the cost of old age pensions increased by $7,504,000 to a total of $28,653,000. Special grants to provinces increased by $4,250,000, reflecting depressed conditions in western Canada. The cost of running the Post Office, due chiefly to increased business, rose by $1,856,000 to a total of $33,762,000. I wish to call special attention to an item of $5,000,000 representing the estimated amount required to be transferred to the Government Annuities Fund to maintain the reserve. This amount is very much larger than the provision made in any previous year and the increase results from the necessity of valuing our liabilities under annuity contracts in force as at March 31, 1937 on the basis of the increased rates now in effect. I should add that the figure mentioned is only a rough estimate pending completion of the actuarial calculations by the Department of Labour. It is obvious also that this item adds to our expenditure for the past year an estimated $5,000,000 which is really attributable to the operations of many prior years. Other increases in ordinary expenditure were of minor significance.

Fortunately I am also able to report a number of decreases in ordinary expenditure. Of these the most important were declines of $2,134,000 in ordinary expenditures on public works, $1,306,000 in the cost of operations of the marine branch of the Department of Transport, and $5,292,000 in interest paid on public debt. This last-named decrease in annual interest charges is one to which I will have occasion to refer later.

CAPITAL EXPENDITURES

Total expenditures charged to capital account amounted to $4,430,000, an increase of $938,000 over the previous year. Of this amount $4,359,000 was spent for public works construction.

SPECIAL EXPENDITURES

The next category of expenditures which I wish to discuss is that important group of items which are classified as Special, and which this year, as last year, relate solely to disbursements made for unemployment relief purposes. The aggregate of these expenditures for the year 1937-38 amounted to $68,532,000, a decrease of $9,472,000 from the previous year.

Direct grants in aid to provinces declined from $28,930,000 in 1936-37 to $19,493,000 in 1937-38, and the dominion's share of joint dominion-provincial projects, including transportation facilities into mining areas, decreased from $13,913,000 to $10,165,000. The total cost of public works and other projects sponsored by the dominion alone amounted to $13,911,000 last year as compared with $23,554,000 during the preceding year.

The largest single item of special expenditures, however, was necessitated by the disastrous drought in Saskatchewan and Alberta to which reference has already been made. To meet the emergent and unforeseen problems created by this renewed drought condition, the dominion government felt obligated to appropriate funds by governor general's warrants in order to pay the expenditures involved in purchasing and distributing feed and fodder for live stock in the drought-stricken areas, and in providing direct relief to farmers living in these areas. Agreements were entered into with the provinces of Saskatchewan and Alberta under which the dominion agreed to bear 100 per cent of the cost of direct relief in the drought areas as defined, and 100 per cent of the cost of feed and fodder for live stock, including the net freight charges incurred on live stock shipped from the drought areas to suitable feeding ground and return therefrom. Arrangements were also made for the marketing of surplus live stock which cost the dominion treasury the sum of $337,000. The amount spent for direct relief was $11,925,000 in the drought area; for feed and fodder $11,352,000; and for the purchase and distribution of foodstuffs $971,000. The total of these special expenditures for western drought area relief amounted to $24,585,000, which compared with an expenditure of only $8,751,000 for similar purposes in the fiscal year 1936-37. Of this total, the sum of $19,232,000 was expended from the moneys provided by governor general's warrants.

The following table which I will place on Hansard compares the expenditures made for direct relief and various unemployment relief projects during each of the last two fiscal years:—

UNEMPLOYMENT RELIEF EXPENDITURE

—	1936-37	1937-38
	$	$
Grants-in-aid to Provinces	28,929,774	19,493,000
Dominion's share of joint Dominion-Provincial Projects	13,912,623	10,165,000
Railway Maintenance Works	2,662,084	—
Dominion Projects:—		
Department of Public Works	10,043,785	7,098,000
Department of National Defence	3,746,849	75,000
National Harbours Board	4,733,256	1,565,000
Department of Mines and Resources	2,182,794	1,474,000
Department of Agriculture	1,048,738	1,937,000
Department of Transport	1,152,035	882,000
Miscellaneous and Sundry Departments	840,773	1,258,000
Special Drought Area Relief:—		
Direct Relief	5,143,658	11,925,000
Agricultural Relief (feed and fodder and freight on live stock)	3,607,333	11,689,000
Food Stuffs	—	971,000
	78,003,702	68,532,000

GOVERNMENT OWNED ENTERPRISES

The next main category of expenditures to which I wish to call attention comprises the losses of, and non-active advances to, government owned enterprises which are operated as separate corporations.

Canadian National Railway System

Operating revenues of the Canadian National Railways amounted to $198,396,000, an increase of $11,786,000, or 6·3 per cent over the corresponding figure for 1936, in spite of the falling off in grain traffic in the late months of last year resulting from the crop failure in western Canada.

Operating expenses of the railway increased by $9,311,000 or 5·4 per cent, to $180,789,000, although wage cuts were partially restored in 1937, the increase in the railway's payroll amounting to $6,584,000. This moderate increase in operating expenditures for the higher volume of traffic carried, compared favourably with the showing made last year by other railway systems on this continent.

The net revenue available for interest on the railway's debt was $8,287,000 compared with $6,409,000 in the preceding year. After payment of interest charges of $50,633,000, including $1,685,000 to the government on capital advances not paid in previous years, there was a net income deficit of $42,346,000 for the year, a decrease of approximately a million dollars from the comparable figure for 1936.

Under the provisions of the Canadian National Railways Capital Revision Act, certain changes were required to be made in the books of the dominion. These reflected the transfer to the securities trust of certain indebtedness formerly held by the minister on behalf of his majesty in exchange for capital stock of the trust, together with other adjustments in non-active accounts which resulted in a net credit of $1,023,000 as shown in the table of revenues. A recapitulation of these changes is given in the table which I now place on Hansard:

Adjustment in Public Accounts resulting from Canadian National Railways Capital Revision Act, 1937

Credit—		
Non-active assets:		
Railway accounts (old)	$ 25,607,393	
Railway accounts (loans non-active)	655,527,456	
Investments in Canadian government railways	589,708	
		$681,724,557
Active assets:		
Canadian government railway stores and open accounts		15,748,922
		$697,473,479

Adjustment in Public Accounts resulting from Canadian National Railways Capital Revision Act, 1937—*Conc.*

Debit—		
Non-active assets:		
Canadian National securities trust stock account	$269,325,706	
Canadian National stock account	18,000,000	
Investment in Hudson Bay railway	457,527	
		$287,783,233
Active assets:		
Canadian government railways working capital		16,771,980
Charges to consolidated fund		392,918,266
		$697,473,479

The increase of $1,023,058 in active assets shown by the above table is due to a transfer from Canadian government railways capital account to active assets—Canadian government railways working capital.

CANADIAN NATIONAL STEAMSHIPS

The operations of the Canadian National (West Indies) Steamships Limited in 1937 after payment of bond interest to the public but before depreciation and interest on government advances, resulted in a surplus of $189,000, which was paid to the government in partial reimbursement of prior deficits and interest. The corresponding figure in 1936 was $87,000.

An advance of $16,000 was made to the company for capital improvements on vessels under its control. In addition to this non-active advance, the table of expenditure also shows a further amount of $88,000 which represents an adjusting entry in connection with the 1936 surplus which was credited in 1936-37 to loans and advances, non-active.

HARBOUR COMMISSIONS

The operations of harbours under the new national harbours board again showed an improvement over the results obtained during the preceding year. Operating income for the calendar year 1937, after payments of interest to the public but before depreciation and interest payable to the government, totalled $2,872,000 or an increase of $598,000, as compared with 1936. This does not take into account the operations of the Prescott and Port Colborne elevators and of Churchill harbour, which were placed under the control of the board during 1937.

Government assistance to harbour commissions charged to expenditure during the fiscal year totalled $2,272,000. Of this amount $289,000 represented the operating deficit of the harbours at Quebec and at Churchill and of the elevator at Prescott. The remainder comprised non-active advances of $367,000 for the deficit on the Jacques Cartier bridge at Montreal, $1,269,000 for retirement of obligations of the harbour commissions at Halifax and Saint John, and $347,000 for capital purposes at Saint John, Three Rivers and Churchill.

In addition to the foregoing items an expenditure of $1,565,000 on various works at certain of the harbours was made under authority of the special supplementary estimates and charged to special expenditures.

TRANS-CANADA AIR LINES

A new item of expenditure appeared for the first time last year in our accounts under the heading of government owned enterprises. This was the net deficit of the Trans-Canada Air lines for the period June 1st to December 31, 1937. The amount of the deficit contributed by the government and charged to expenditure was $111,000.

To sum up, the total amount of assistance to the various government owned enterprises which was treated as expenditure in our accounts was $44,833,000. For 1936-37 the total was $44,218,000, the slightly smaller amount being accounted for by a substantial credit from Canadian National Steamships because of the winding up of the Canadian Government Merchant Marine. Advances to government owned enterprises which are treated as active assets I shall refer to later.

OTHER CHARGES

The final category of expenditures, namely, Other Charges, accounts for a total of only $1,718,000 last year as compared with over $19,000,000 in 1936-37. This is comprised of the usual write-offs of soldier and general land settlement loans and the old seed grain and relief accounts, amounting together to $764,000, ascertained losses and concessions granted and credited to settlers' accounts

under the New Brunswick 500 British family settlement scheme, amounting to $139,000, and the final charge to consolidated fund of $805,000 of Manitoba treasury bills which were written down to non-active assets last year as the dominion's contribution to the voluntary debt adjustment program in that province. As the write-down to non-active assets took place last year, the charge to consolidated fund this year is offset by a corresponding credit.

SUMMARY OF EXPENDITURES

If we add together ordinary, capital and special expenditures as well as expenditures in connection with government owned enterprises and the other charges to which I have just referred, we find that the grand total of expenditures for which the government is responsible aggregated $530,467,000 during the fiscal year 1937-38. This is approximately $2,000,000 less than the total for each of the two preceding fiscal years.

I wish again this year to place on Hansard a table showing the percentage distribution of revenues and expenditures, that is to say, the percentage which each major source of revenue and each major item of expenditure bears to our total revenue as well as to our total expenditure. This table is subject to the same defects to which I called attention last year, but with the new form of estimates which we introduced this year I am confident that in future years most, if not all, of these defects can be removed.

PERCENTAGE DISTRIBUTION OF REVENUES AND EXPENDITURES, 1937-38

(000 omitted)

Revenues	Amount (estimated)	Percentage of total Revenues	Percentage to total Expenditures
	$	$	$
Ordinary Revenue—			
Income Tax	120,366	23·29	22·69
Customs Duties	93,456	18·09	17·62
Excise Duties	52,037	10·07	9·81
Sales Tax	138,054	26·72	26·03
Manufacturers', importation, stamp taxes, etc	42,765	8·28	8·06
Other tax revenues	1,974	0·38	0·37
Total Revenue from taxes	448,652	86·83	84·58
Non-tax Revenues	61,647	11·93	11·62
Total Ordinary Revenues	510,299	98·76	96·20
Special Receipts and Credits	3,009	0·59	0·57
Other Receipts and Credits—			
Refunds of capital expenditures and receipts on non-active account	3,384	0·65	0·64
Grand Total Revenues	516,692	100·00	97·41

Expenditures	Amount (estimated)	Percentage of total Expenditures	Percentage to total Revenues
	$	$	$
Ordinary Expenditures—			
Interest on public debt	132,118	24·91	25·57
Cost of loan flotations—			
Amortization of bond discount, etc	4,555	0·86	0·88
Charges of management	202	0·04	0·04
Total public debt charges	136,875	25·81	26·49
Subsidies and special grants to Provinces	21,210	4·00	4·10
Old Age Pensions	28,653	5·40	5·55
Civil Pensions and Superannuation charges	995	0·19	0·19
Pensions and after-care of soldiers—			
Pensions, War and military	42,240	7·96	8·18
Treatment, and after-care of returned soldiers	12,152	2·29	2·35
Total	54,392	10·25	10·53

PERCENTAGE DISTRIBUTION OF REVENUES AND EXPENDITURES, 1937-38—*Concluded*

(000 omitted)

Expenditures	Amount (estimated)	Percentage of total Expenditures	Percentage to total Revenues
	$	$	$
Ordinary Expenditures—*Concluded*			
Agriculture	9,017	1·70	1·74
Fisheries	1,850	0·35	0·36
Legislation	2,309	0·44	0·45
Mines and Resources	13,573	2·56	2·63
National Defence	32,760	6·17	6·34
Post Office	33,762	6·36	6·53
Public Works	12,385	2·33	2·40
Transport	14,916	2·81	2·89
All other	48,257	9·10	9·34
Total Ordinary Expenditures	410,954	77·47	79·54
Capital Expenditures—			
Railways	71	0·01	0·01
Public Works	4,359	0·83	0·85
Total Capital Expenditures	4,430	0·84	0·86
Special Expenditures—			
Grants-in-aid to Provinces	19,493	3·67	3·77
Dominion Projects	13,911	2·62	2·73
Western Drought Area Relief	24,585	4·64	4·76
Miscellaneous	10,543	1·99	2·00
Total Special Expenditures	68,532	12·92	13·26
Government Owned Enterprises—			
Losses charged to Consolidated Fund—			
Canadian National Railways	42,346	7·98	8·20
National Harbours Board and Trans-Canada Air Lines	400	0·08	0·08
Loans and Advances Non-active—			
National Harbours Board and Canadian National Steamships	2,087	0·39	0·40
Total Government Owned Enterprises	44,833	8·45	8·68
Other Charges—			
Write-down of assets	1,718	0·32	0·32
Grand Total Expenditures	530,467	100·00	102·66

Over-All Deficit

As I have reported our total revenues at $516,692,000 and our total expenditures at $530,467,000, it is apparent that the over-all deficit, in other words, the increase in net debt, for the fiscal year which ended on March 31 last, was $13,775,000.

While naturally I am disappointed to have to report any deficit, I believe there is cause for gratification over this close approach to a balanced budget after eight years of very large deficits. It will be recalled that for 1936-37 the realized deficit was $77,851,000 and that when I delivered the budget speech last year I did not venture to forecast a deficit for 1937-38 of less than $35,000,000. That we have done so much better than that forecast is all the more gratifying when we consider the abnormal item of $5,000,000 added to the annuities reserve and the substantial unanticipated increase in our expenditures resulting from the crop failure in western Canada. As I have already indicated, the increase in our special expenditures resulting from intensified drought conditions was over $20,000,000, and the increase in the C.N.R. deficit arising from this cause was at least $7,000,000. Had it not been for this unfortunate catastrophe, it is clear that to-day I would have been able to report an over-all surplus.

The progress which this government has made in approaching its objective of a balanced budget within the shortest practicable period is indicated by the fact that, while the over-all deficit in our first year, 1935-36, was $159,989,000, the deficit was reduced to $77,851,000 in 1936-37, and to $13,775,000 during the past fiscal year.

Loans and Investments

Active Assets

In addition to the expenditures for the year, as outlined, we should also take into account loans and investments which are treated as active assets in the public accounts. For the year under review, the transactions in loans and investments resulted in a net credit to the dominion treasury of $4,202,000 as compared with a net debit during 1936-37 of $21,457,000. In other words, total repayments of loans and advances made in previous years exceeded new advances made during the year by a substantial amount.

LOANS TO PROVINCES

The total of loans made to the four western provinces for relief purposes during the fiscal year 1937-38 was slightly higher than the total advanced in 1936-37. The net amount of such loans was $16,298,611 which compares with $15,462,477 made during the preceding fiscal year. The Unemployment and Agricultural Assistance Act of 1937 restricted such assistance to a maximum amount to be measured by the provincial share of the cost of unemployment relief and relief projects incurred under agreements with the dominion entered into pursuant to the act. Furthermore the terms of the act required any province desiring assistance by way of loans to establish the necessity therefor by the submission of detailed statements of the financial position of the province.

As at March 31, 1938, loans made to the four western provinces under authority of the various relief acts were outstanding in the dominion's books to an aggregate amount of approximately $129,800,000. The totals for the various provinces, in round figures, were as follows: Manitoba, $22,285,000; Saskatchewan, $48,350,000; Alberta, $26,079,000; and British Columbia, $33,087,000. In the case of Manitoba, the total which I have given is the amount outstanding after deducting the sum of $804,897 written off in accordance with vote 392 of the further supplementary estimates for 1936-37, and in the case of Saskatchewan the total given is after deducting the sum of $17,682,158 written down to non-active assets pursuant to vote 393 of the further supplementary estimates for 1936-37.

I desire now to place on Hansard tables showing the net loans made to each province during each of the last seven fiscal years, and a classification of such loans on the basis of the general purposes for which the loans were obtained.

NET LOANS TO PROVINCES UNDER RELIEF ACTS BY FISCAL YEARS

—	Manitoba	Saskatchewan	Alberta	British Columbia	Total
	$	$	$	$	$
1931-32	2,788,812	10,934,341	4,097,740	4,813,124	22,634,017
1932-33	5,171,904	7,578,556	1,902,041	912,636	15,565,137
1933-34	2,273,283	5,469,240	4,050,743	1,321,761	13,115,027
1934-35	2,874,631	10,141,014	1,926,476	7,966,714	22,908,835
1935-36	2,396,226	14,245,478	13,104,000	12,558,445	42,304,149
1936-37	4,626,000	6,058,879	805,198	3,972,400	15,462,477
1937-38	2,959,188	11,604,787	193,000	1,541,636	16,298,611
	23,090,044	66,032,295	26,079,198	33,086,716	148,288,253
Less reductions as provided by votes 392 and 393 of further supplementary estimates 1936-37	804,897	17,682,158	—	—	18,487,055
	22,285,147	48,350,137	26,079,198	33,086,716	129,801,198

NET LOANS TO PROVINCES UNDER RELIEF ACTS CLASSIFIED AS TO PURPOSE

—	Loans specifically to meet maturing obligations and interest	Loans specifically for agricultural relief including purchase of seed grain	Loans for Provincial purposes generally including direct relief and public works	Total
	$	$	$	$
Manitoba	1,139,455	234,819	21,715,770	23,090,044
Saskatchewan	3,934,341	15,134,633	46,963,321	66,032,295
Alberta	8,577,000	3,152,748	14,349,450	26,079,198
British Columbia	9,818,845	—	23,267,871	33,086,716
	23,469,641	18,522,200	106,296,412	148,288,253
Less reductions as provided by votes 392 and 393 of further supplementary estimates 1936-37, Manitoba $804,897 and Saskatchewan $17,682,158				18,487,055
				129,801,198

LOANS TO CANADIAN NATIONAL RAILWAY SYSTEM

In addition to paying the net income deficit of the Canadian National Railways, the government advanced to the Railway $11,035,000 for capital purposes and for the retirement of miscellaneous obligations. This amount, together with advances of $41,358,000 made for similar purposes in the years 1932 to 1936, were repaid to the extent of $50,000,000 out of the proceeds of a dominion guaranteed bond issue marketed in January, 1938. This issue took the form of $20,000,000 2 per cent four-year bonds yielding 2·20 per cent and $30,000,000 3 per cent thirteen-year bonds yielding 3·29 per cent. An amount of $2,393,000 of temporary loans remaining unpaid is carried on the books of the dominion as an active asset.

There was also advanced to the Canadian National Railway Company $3,390,000 for the construction of the Senneterre-Rouyn branch line, $1,500,000 for the purchase of the capital stock of the Trans-Canada Air Lines and $7,040,000 as a temporary loan pending the passing of the 1938 budget of the Railway Company. A repayment of $394,000 was received on account of loans made in prior years for betterment and repairs to railway equipment. The net result of these various transactions was a reduction in government loans to the Canadian National Railways of $27,429,000, but an increase in our indirect liabilities of $50,000,000.

OTHER LOANS AND INVESTMENTS

During the fiscal year, the government's purchases of Canadian Farm Loan Board 3½ per cent bonds amounted to $3,550,000, and of the board's capital stock to $282,000. An amount of $10,000 was advanced to the board as initial capital under the authority of the Fisherman's Loan Act. A further amount of $6,000 was advanced to the board to cover losses on operations in respect of loans made under the provisions of part II of the Canadian Farm Loan Act. As at March 31, 1938, the total investment by the Government of Canada in the farm loan board had reached $31,598,000.

An amount paid out by the government during 1937-38 on loans approved under the terms of the Dominion Housing Act totalled $1,679,000. The dominion's share of such loans is not in excess of 20 per cent of the lending value of each property financed under the act and is paid out from time to time as required after loans are approved.

During the year $1,891,000 was advanced to the National Harbours Board for the ports of Montreal and Vancouver for capital purposes. These loans are considered as active assets, as both these ports have paid a substantial part of the interest accrued on their obligations held by the government.

A loan of $500,000 was made to the Canadian Broadcasting Corporation to assist in the building of two broadcasting stations.

Owing to the winding up of the Canadian Government Merchant Marine, it was necessary to provide $450,000 by way of loan to the Canadian National (West Indies) Steamships Limited for working capital purposes.

Loans to the Canadian Pacific Railway Company made in previous years for relief purposes were reduced by $211,000. In addition, railway equipment was purchased to a value of $89,000 which in turn was leased to the Canadian Pacific Railway Company.

The dominion's investment in the government of Roumania's bonds was increased by $359,000 due to the receipt of bonds representing an adjustment for interest unpaid in 1931.

A repayment of $1,422,000 was received during the year in reduction of loans to provinces for housing purposes, made under the Act of 1919. The increase in active loans to the soldier settlement board amounted to $505,000, which was more than offset by a write-off of $750,000 to consolidated fund.

The following is a statement of the amount of loans and investments made during the last fiscal year which are regarded as active assets, and the comparable figures for the four preceding years:

LOANS AND INVESTMENTS, ACTIVE

(000 omitted)

—	1933-34	1934-35	1935-36	1936-37	Estimated 1937-38
	$	$	$	$	$
Canadian National Railways	2,628	16,579	3,689	4,573	Cr. 27,429
Canadian Pacific Railway	—	—	1,270	555	Cr. 211
Canadian Farm Loan Board	416	353	7,933	10,991	3,848
Dominion Housing Loans	—	—	82	995	1,679
National Harbours Board	1,677	393	1,438	323	1,891
Provinces—under relief legislation	13,115	22,909	42,304	15,462	16,299
Provinces—housing program 1919	Cr. 213	Cr. 397	Cr. 3,003	Cr. 2,038	Cr. 1,422
Railway equipment purchased	—	—	7,244	5,120	89
Soldier and general land settlement	Cr. 726	Cr. 102	Cr. 566	Cr. 489	505
Roumanian government	—	—	—	—	359
Bank of Canada—Class "B" shares	—	—	—	5,100	—
Canadian Broadcasting Corporation	—	—	—	—	500
Canadian National (West Indies) Steamships	—	—	—	—	450
Net Advances	16,897	39,735	60,391	40,592	Cr. 3,442
Less write-offs—					
Soldier and general land settlement loans	—1,766	—469	—488	—628	—750
Canadian Farm Loan Board—capital stock	—	—	—	—20	—10
Write-down to non-active assets—					
Manitoba and Saskatchewan treasury bills	—	—	—	—18,487	—
Net change in active investments	15,131	39,266	59,903	21,457	Cr. 4,202

Loan Flotations

The fiscal year under review witnessed a heavy amount of government financing. Obligations of the government falling due during the year, including $52,000,000 of sterling issues maturing on July 1, 1938 which it was considered wise to provide for by prior financing, totalled $321,920,508 and both my predecessor and myself had looked forward, perhaps at times with a little misgiving, to the magnitude of the task which the year 1937-38 would bring. I am now pleased to be able to report that all this financing was successfully accomplished, and the maturing obligations were paid off or refunded at a substantial interest saving to the country. New dominion obligations were floated to a total amount of $295,460,138, and the maturing obligations were redeemed out of the proceeds of these new issues and out of cash of $26,460,370 supplied directly from the treasury.

In the table which I now place on Hansard full details of the amounts and terms of each of the new issues and of the prices at which they were sold are set forth.

LOAN FLOTATIONS, 1937-1938

Issue Date	Maturity Date	Interest Rate	Where Payable	Price		Yield at		Amount Issued	Purpose to Refund	
				To Public	To Government*	Public Price	Price to Government		Amount	Int. Rate
1937		%				%	%			%
June 1....	June 1, 1939	1	Canada	99.25	99.125	1·38	1·45	$20,000,000		
June 1....	June 1, 1942	2	Canada	98.25	98.00	2·375	2·43	60,000,000	$113,500,000	5½
June 1....	June 1, 1949	3½	Canada	99 00	98.25	3·35	3·43	33,500,000		
July 1....	July 1, 1938	4	Canada (School Lands)	—	100.00	—	4·00	33,293,471	33,293,471	4
Nov.15....	Nov. 15, 1944	2½	Canada	98.50	98.125	2·74	2·80	20,000,000		
Nov.15....	Nov. 15, 1951	3¼	Canada	99.00	98.25	3·34	3·41	60,000,000	122,799,800	5½
Dec. 1....	June 1, 1939	1	Canada	99.125	99.00	1·59	1·68	20,000,000		
1938										
July 1**..	July 1, 1963	3¼	London	98.50	97.18	3·34	3·42	48,666,667	37,271,230	3
									15,056,007	3½
								$295,460,138	$321,920,508	

*Price to public, less commission to underwriters and dealers.
**Issued in January, 1938, to provide funds to pay off bonds aggregating $52,327,237, which are to mature in London on July 1, 1938.

As a result of these refunding operations during the past fiscal year the government has effected a saving in interest charges of $6,342,000 per year. Since the present government took office in October, 1935, the refunding operations which have been carried out have effected an annual saving of over $10,200,000. In addition the calendar year 1937 saw the elimination of the last two tax-free bond issues sold to the public during the war period. These two issues—the five per cents maturing on March 1st, 1937, and the five and one-halfs maturing on December 1st, 1937—had been outstanding in total amount of over $326,000,000, and they required an annual interest payment of over $17,485,000. The fact that these tax-free issues have been replaced by taxable issues means that in future years our income tax revenues should be substantially increased. It is impossible to determine precisely what this increase should be, but if we assume that the cash proceeds of the two tax-free issues were reinvested by their former holders to yield an average return of 3½ per cent and if we assume that these holders paid an average rate of tax on this income as low as the corporate rate, namely, 15 per cent, the estimated annual increase in income tax revenues would be over $1,700,000.

During the year we continued the established practice of offering fortnightly issues of three months' treasury bills. While the primary purpose of these offerings is to assist in the effective functioning of the short-term money market by keeping available at all times a reasonable amount of liquid credit instruments of the highest grade, they also serve, of course, to provide a revolving fund of cash which is available at very low interest rates. The last issue of treasury bills during the fiscal year 1937-38 was sold at what was up to that time the record low yield of ·524 per cent. Since that time, however, rates have tended still further downwards, and our latest offering, dated June 1st, was sold on a yield basis of ·466 per cent. The average cost to the treasury of funds obtained by the twenty-four offerings made during the fiscal year was a yield basis of ·689 per cent. The total amount of treasury bills outstanding on March 31st, 1938, was $150,000,000, the same as was outstanding a year previously.

National Debt

As of March 31st, 1938, the outstanding unmatured funded debt and treasury bills of the dominion, less sinking funds, amounted to $3,248,900,000. Adding to this amount $287,400,000 of other liabilities, consisting chiefly of annuity, insurances and superannuation funds, post office saving deposits and certain trust and contingent accounts, we arrive at gross liabilities for the dominion of $3,536,300,000. Active assets, including cash on hand and investments, amounted to $438,573,000. After deducting the latter figure from the gross liabilities we reach an estimated net debt of $3,097,727,000 as at the close of the fiscal year. The increase over last year of $13,775,000 represents, of course, the amount of the over-all deficit to which I have previously made reference.

I now place on Hansard a statement showing the assets and liabilities of the dominion as estimated as at March 31st, 1938.

LIABILITIES—MARCH 31, 1938
(estimated)

Bank Circulation Redemption Fund		$ 5,967,000
Post Office money orders, postal notes, etc., outstanding		3,665,000
Post Office Savings Bank Deposits		22,588,000
Insurance and Superannuation Funds—		
Government Annuities	$ 103,703,000	
Insurance Fund, Civil Service	11,585,000	
Insurance Fund, Returned Soldiers	16,827,000	
Retirement Fund	9,126,000	
Superannuation Fund	56,151,000	
		197,392,000
Trust Funds—		
Indian Funds	14,082,000	
Common School Funds	2,677,000	
Contractors' Securities Deposits	1,157,000	
Other Trust Funds	3,036,000	
		20,952,000
Contingent and Special Funds		2,981,000
Outstanding cheques		9,835,000
London Loan Suspense (registered stock 1958–63)		8,988,000
Province Debt Accounts		9,624,000
Interest due and outstanding		1,680,000
Funded Debt—		
Unmatured less sinking funds	3,248,900,000	
Matured and outstanding	3,678,000	
		3,252,578,000
		$ 3,536,300,000

ASSETS—MARCH 31, 1938
(estimated)

Active Assets—		
Cash, working capital advances and other current assets		$ 16,665,000
Bank of Canada, class "B" shares		5,100,000
Gold Bullion account		16,000
Loans to Provinces—		
Housing	$ 3,308,000	
Relief Acts	129,801,000	
Subsidy Account, Alberta	469,000	
		133,578,000
Loans to Foreign Governments—		
Greece	6,525,000	
Roumania	24,329,000	
		30,854,000
Loans to National Harbours Board—		
Montreal	60,114,000	
Vancouver	24,977,000	
		85,091,000
New Westminster Harbour Commissioners		275,000
Dominion Housing Act—Loans		2,755,000
Canadian Farm Loan Board		31,598,000
Soldier and General Land Settlement		42,233,000
Loan to Canadian Broadcasting Corporation		500,000
Loan to Canadian National (West Indies) Steamships		450,000
Seed Grain and Relief Advances		2,364,000
Canadian Government Railways working capital		16,772,000
Deferred debits—		
Unamortized discount and commission on loans		$ 41,209,000
Bond Holding Account		328,000
Railway Accounts—		
Canadian National Railways—		
Advances, Financing and Guarantee Act, 1937	2,393,000	
Senneterre—Rouyn Railway Line	3,390,000	
Trans-Canada Air Lines	1,500,000	
Temporary Loans	7,040 000	
Loans for betterment or repair of railway equipment	395,000	
Purchase of equipment—leased	6,723,000	
		21,441,000
Canadian Pacific Railway—		
Loan for betterment or repair of railway equipment	1,170,000	
Loan for wages on special works program	444,000	
Purchase of equipment—leased	5,730,000	
		7,344,000
		$ 438,573,000
Net debt, March 31, 1938		$ 3,097,727,000

ASSETS MARCH 31, 1938—*Concluded*

(estimated)

Net Debt represented by—		
A. Expenditure and non-active assets, March 31, 1938 (estimated).		
Capital expenditures—		
Public Works—		
Canals	240,350,000	
Railways	429,691,000	
Public buildings, harbour and river improvements	286,507,000	
Military property and stores	12,050,000	
Territorial accounts	9,896,000	
		$ 978,494,000
Loans non-active—		
Canadian National Railways Security Trust		269,326,000
Canadian National Railways Stock		18,000,000
Canadian National Steamships		13,858,000
Railway Accounts (old)		62,791,000
Loans to Province of Saskatchewan (Relief Acts)		17,682,000
National Harbours Board—		
Quebec	26,293,000	
Chicoutimi	3,796,000	
Churchill	9,000	
Halifax	10,468,000	
Saint John	16,003,000	
Three Rivers	3,554,000	
Montreal (Jacques Cartier Bridge)	3,313,000	
		63,436,000
Seed Grain and Relief advances		478,000
Soldier and General Land Settlement		16,653,000
Miscellaneous advances		3,536,000
B. Consolidated Fund—		
Balance, consolidated fund brought forward from March 31, 1937	1,250,051,000	
Excess of expenditure over revenue, fiscal year ended March 31, 1938 (estimated)	10,503,000	
Charges authorized by C.N.R. Capital Revision Act, 1937	392,919,000	
		1,653,473,000
		$ 3,097,727,000

The following table, which I also wish to place on Hansard, gives a statement of the unmatured funded debt and treasury bills of the dominion outstanding as at March 31, 1938, and the annual interest charges thereon:

UNMATURED FUNDED DEBT AND TREASURY BILLS AS AT MARCH 31, 1938 AND ANNUAL INTEREST CHARGES

Date of Maturity	Rate Per Cent	Where Payable	Amount of Loan	Annual Interest Charges
			$ cts.	$ cts.
1938, July 1	4	Canada	33,293,470 85	1,331,738 83
July 1	3	London	8,071,230 16	242,136 90
July 1	3	London	18,250,000 00	547,500 00
July 1	3	London	10,950,000 00	328,500 00
July 1	3½	London	15,056,006 66	526,960 23
Oct. 15	2	Canada	90,000,000 00	1,800,000 00
1939, Jan. 1	2	New York	40,000,000 00	800,000 00
June 1	1	Canada	20,000,000 00	200,000 00
June 1	1	Canada	20,000,000 00	200,000 00
Oct. 15	4	Canada	47,269,500 00	1,890,780 00
Oct. 15	2½	Canada	7,933,000 00	198,325 00
Nov. 15	2	Canada	20,000,000 00	400,000 00
1940, Mar. 1	3	Canada	115,013,636 82	3,450,409 10
June 1	1½	Canada	80,000,000 00	1,200,000 00
Sept. 1	4½	Canada	75,000,000 00	3,375,000 00
1941, Mar. 15	1	Canada	45,000,000 00	450,000 00
Nov. 15	5	Canada	141,663,000 00	7,083,150 00
1942, June 1	2	Canada	60,000,000 00	1,200,000 00
Oct. 15	3	Canada	40,409,000 00	1,212,270 00
1943, June 1	2½	Canada	20,000,000 00	500,000 00
Oct. 15	5	Canada	147,000,100 00	7,350,005 00
1944, Jan. 15	2¼	New York	30,000,000 00	675,000 00
Oct. 15	4½	Canada	50,000,000 00	2,250,000 00
Nov. 15	2½	Canada	20,000,000 00	500,000 00
1945, Aug. 15	2½	New York	76,000,000 00	1,900,000 00
Oct. 15	4	Canada	88,337,500 00	3,533,500 00
1946, Feb. 1	4½	Canada	45,000,000 00	2,025,000 00
1947, Oct. 1	2½	London	4,888,185 64	122,204 64
1949, June 1	3¼	Canada	33,500,000 00	1,088,750 00
Oct. 15	3½	Canada	138,322,000 00	4,841,270 00
1950, July 1	3½	London	137,058,841 00	4,797,059 43
1951, Nov. 15	3¼	Canada	60,000,000 00	1,950,000 00
1952, May 1	5	New York	100,000,000 00	5,000,000 00
Oct. 15	4	Canada	56,191,000 00	2,247,640 00
1955, May 1	3¼	London	48,666,666 67	1,581,666 67
June 1	3	Canada	40,000,000 00	1,200,000 00
June 1	3	Canada	55,000,000 00	1,650,000 00
1956, Nov. 1	4½	Canada	43,125,700 00	1,940,656 50
1957, Nov. 1	4½	Canada	37,523,200 00	1,688,544 00
1958, Sept. 1	4	London	73,000,000 00	2,920,000 00
Nov. 1	4½	Canada	276,687,600 00	12,450,942 00
1959, Nov. 1	4½	Canada	289,693,300 00	13,036,198 50
1960, Oct. 1	4	London	93,926,666 66	3,757,066 67
Oct. 1	4	New York	100,000,000 00	4,000,000 00
1961, Jan. 15	3¼	New York	48,000,000 00	1,560,000 00
1966, June 1	3¼	Canada	54,703,000 00	1,777,847 50
Perp. Sept. 15	3	Canada	55,000,000 00	1,650,000 00
1967, Jan. 15	3	New York	55,000,000 00	1,650,000 00
Demand	6	Canada	4,000 00	240 00
Demand	6	Canada	11,827 40	709 64
Demand	3½	Canada	9,600 00	336 00
Treasury Bills due April 1, 1938	·744	Canada	25,000,000 00	186,000 00
Treasury Bills due April 14, 1938	·726	Canada	25,000,000 00	181,500 00
Treasury Bills due April 30, 1938	·700	Canada	25,000,000 00	175,000 00
Treasury Bills due May 16, 1938	·648	Canada	25,000,000 00	162,000 00
Treasury Bills due June 1, 1938	·584	Canada	25,000,000 00	146,000 00
Treasury Bills due June 15, 1938	·524	Canada	25,000,000 00	131,000 00
			3,314,558,031 86	117,062,906 61
Payable in Canada			2,455,690,435 07	74·09%
Payable in New York			449,000,000 00	13·55%
Payable in London			409,867,596 79	12·36%
			3,314,558,031 86	100 %
Less bonds and stocks of the above loans held as sinking funds			65,657,699 66	
			3,248,900,332 20	

Indirect Liabilities

Bonds and debenture stocks bearing the guarantee of the dominion outstanding in the hands of the public at the close of the last fiscal year amounted to $1,050,608,000. Canadian National Railway guaranteed obligations increased by $47,577,000 to $1,019,947,000 due to the issue of $50,000,000 guaranteed bonds to repay temporary loans obtained by the railway from the government for capital purposes, less retirements of serial issues in the amount of $2,423,000. Guaranteed bonds of harbour commissions and steamships decreased by $304,000 during the year under review.

There are also outstanding other contingent liabilities arising out of guarantees given under relief and other acts. During the fiscal year under review the only new guarantee was that under The Saskatchewan Seed Grain Loans Guarantee Act, 1936. Under provincial statutes the province of Saskatchewan guaranteed loans made by chartered banks to municipalities or to the Department of Municipal Affairs for seed grain assistance to farmers during the crop year 1936. The provincial guarantee is in turn supplemented by a dominion guarantee, the amount of which at March 31, 1938, was $2,555,000.

A similar arrangement was made under the terms of The Seed Grain Loans Guarantee Act, 1937, to provide for seed grain assistance to farmers in the provinces of Manitoba, Saskatchewan and Alberta during the crop year 1937. Pending the submission of definitive documents no formal guarantee has yet been given by the dominion. The amounts involved for each province are approximately as follows: Manitoba, $130,000, Saskatchewan, $6,498,000 and Alberta, $911,000.

There were also outstanding at the close of the fiscal year guaranteed bank loans to the Canadian Wheat Board in the amount of $489,000 and to the Canadian Cooperative Wheat Producers Limited in the amount of $169,000 for the purchase of oats for the account of the province of Saskatchewan. The guarantee of the dominion to the Winnipeg Grain and Produce Clearing Association Limited, referred to in previous budgets, is still outstanding, although trading by the board in futures is very limited. No liability in connection with the guarantee accrues from day to day as margin deposits are made to the clearing association daily.

At March 31, 1938, home improvement loans had been granted by banks and approved lending institutions to home owners in the amount of $14,526,000. The dominion's contingent liability with respect to these home improvement loans is limited to 15 per cent of the aggregate of such loans made by each approved lending institution. As claims for losses have been paid in the amount of $2,500, our contingent liability as at March 31, 1938, was $2,176,400. While it is far too early to form any judgment as to what our ultimate losses may be, it is encouraging to note that at the end of the first 17 months of the operation of the plan, the loss ratio is insignificant, only 11 loss claims for $2,500 having been paid out of 37,108 loans in the total amount of $14,526,000. In terms of dollar losses to total volume of loans, this means a loss ratio over the seventeen months of only slightly over 1/60th of 1 per cent.

I shall now place on Hansard a statement of the principal amount of bonds and debenture stocks and other indebtedness guaranteed by the dominion outstanding at March 31, 1938.

BONDS AND DEBENTURE STOCKS GUARANTEED BY DOMINION GOVERNMENT
AS AT MARCH 31, 1938

Date of Maturity	Issue	Interest Rate	Amount Outstanding
		%	$
May 1, 1938	Canadian National	2	13,400,000 00
Aug. 1, 1938	Canadian National Equipment "G"	5	750,000 00
Jan. 15, 1942	Canadian National	2	20,000,000 00
Feb. 15, 1943	Canadian National	2	55,000,000 00
Feb. 1, 1944	Canadian National	2¼	15,500,000 00
May 1, 1944	Canadian National	3	35,000,000 00
July 1, 1946	Canadian Northern	6	24,238,000 00
Apr. 1, 1948	New Westminster Harbour Commissioners	4¾	700,000 00
Dec. 15, 1950	Canadian National	3	50,500,000 00
Sept. 1, 1951	Canadian National	4½	50,000,000 00
Feb. 1, 1952	Canadian National	3	20,000,000 00
Aug. 1, 1952	Saint John Harbour Commissioners	5	667,953 04
Feb 15, 1953	Canadian National	3	25,000,000 00
July 10, 1953	Canadian Northern	3	9,359,996 72

BONDS AND DEBENTURE STOCKS GUARANTEED BY DOMINION GOVERNMENT
AS AT MARCH 31, 1938—*Conc.*

Date of Maturity	Issue	Interest Rate	Amount Outstanding
		%	$
Feb. 1, 1954	Canadian National	5	50,000,000 00
Mar. 1, 1955	Canadian National (West Indies) Steamships Limited	5	9,400,000 00
June 15, 1955	Canadian National	4¾	50,000,000 00
Feb. 1, 1956	Canadian National	4½	70,000,000 00
July 1, 1957	Canadian National	4½	65,000,000 00
July 20, 1958	Canadian Northern	3½	7,896,543 87
May 4, 1960	Canadian Northern Alberta	3½	3,149,998 66
May 19, 1961	Canadian Northern Ontario	3½	34,229,996 87
Jan. 1, 1962	Grand Trunk Pacific	3	34,992,000 00
Jan. 1, 1962	Grand Trunk Pacific	4	8,440,848 00
July 1, 1969	Canadian National	5	60,000,000 00
Oct. 1, 1969	Canadian National	5	60,000,000 00
Nov. 1, 1969	Harbour Commissioners of Montreal	5	19,000,000 00
Feb. 1, 1970	Canadian National	5	18,000,000 00
By drawings	Canadian National	2	23,282,663 80
Various dates 1938-54	City of Saint John Debentures assumed by Saint John Harbour Commission	Various	892,641 72
Perpetual	Grand Trunk Guaranteed Stock	4	60,833,333 33
"	Grand Trunk Debenture Stock	5	20,782,491 67
"	Great Western Debenture Stock	5	13,252,322 67
"	Grand Trunk Debenture Stock	4	119,839,014 33
"	Northern Railway of Canada Debenture Stock	4	1,499,979 67
			1,050,607,784 35

Other Indebtedness Guaranteed	Principal Amount Outstanding Mar. 31, 1938
Bank Advances, *re* Province of Manitoba Savings Office	$ 6,875,932
Bank Advances, *re* Government of Newfoundland	625,000
Bank Advances, *re* Dominion Steel and Coal Corporation (order for rails)	9,724
Province of Manitoba Treasury Bill	4,878,764
Province of British Columbia Treasury Bill	626,534
Bank Advances, *re* Canadian Co-operative Wheat Producers (Saskatchewan Oats Account)	168,909
Bank Advances, *re* Canadian Wheat Board	488,965
Bank Advances, *re* Saskatchewan Seed Grain Loans	2,555,113
Guarantee of Home Improvement Loans (15 per cent of aggregate loans made) less claims paid	2,176,391
Deposits maintained as reserves by chartered banks in Bank of Canada	194,859,595

I now come to that part of the budget for which you have all more or less patiently waited.

III

BUDGET FORECAST 1938-39

I have already stated that the over-all deficit for the past fiscal year is estimated at $13,775,000. In the budget a year ago, I forecast a deficit of $35,000,000, and stated that in accordance with the government's definite program of attaining the final objective of a balanced budget at the earliest practicable date, I hoped to wipe out the deficit altogether during the current fiscal year. While we have been able to do very much better than my forecast for 1937-38, conditions beyond our control have made it difficult, if not wholly impossible, to achieve the goal I had in mind for 1938-39.

The house will recall that the main and supplementary estimates, already submitted, call for total appropriations of $524,600,000. If we can judge by the experience of previous years, the departments will be able to effect considerable savings in their appropriations, and these savings, judging from experience, should be more than sufficient to offset any additional expenditures that may be authorized. I believe, therefore, that I am safe in estimating that total expenditures for the current fiscal year will not exceed $524,600,000.

Our revenue prospects for the full year will be greatly influenced by whether or not our hopes for a good wheat crop are realized and whether or not the current trend of business in the countries which constitute our chief markets show improvement during the next few months. However, two and one-half months of our current fiscal year have already elapsed and our revenues for this period provide a fairly good basis for estimating our total receipts for the year. On the basis of these partial returns and of a reasonable forecast of business prospects for the remainder of the year and allowing for the tax changes which I am about to announce, I estimate that for the year as a whole our aggregate revenue will approximate $501,700,000 made up as follows:

Taxation revenue:	
Customs duties	$ 82,000,000
Excise duties	51,000,000
Income tax	138,000,000
Sales tax	125,000,000
Manufacturers', stamp, importation and other special taxes	39,000,000
Banks and insurance companies	1,950,000
Total taxation revenue	$436,950,000
Non-tax revenue:	
Post office receipts	$ 35,000,000
Interest on investments	13,500,000
Other	13,250,000
Total non-tax revenue	$ 61,750,000
Total ordinary revenue	$498,700,000
Special receipts	3,000,000
Grand total revenue	$501,700,000

These estimates of revenue and expenditure indicate an estimated deficit for the current year of approximately $23,000,000. I do not think it will be larger than this. It may indeed be substantially smaller, if the west produces a good crop, if the business trend in the United States and other important countries is reversed at an early date, and if our own construction industry takes full advantage of the opportunities now afforded to it. I may add that the results of such favourable developments will not be wholly realized until next year and not be fully reflected in the government accounts until the next budget.

In view of the current business situation, we have not thought it wise to attempt this year to wipe out a possible deficit of the moderate proportions I have indicated by imposing further burdens upon industry and upon the people. On the contrary in the tax changes which are being proposed we are trying in the first place to eliminate certain anomalies and inequities and in the second place to make certain important adjustments designed to accelerate the forces making for business recovery.

Taxation Changes

Under the Income War Tax Act, no changes will be made in the rates of tax on individual and corporate incomes. Amendments to this act, however, will include a provision to allow Canadian companies a deduction in respect of lump sum contributions to employees' pension funds covering past years' services of employees, such deductions to be spread forward over a ten-year period. The government hopes that this concession will encourage the present tendency in industry to create pension funds for employees. Annuities received under the provisions of any will or trust will be made taxable. In respect of royalties paid abroad from sources within Canada, no deduction will be allowed on account of the amount of any such royalties passed on to another party. An amendment will also be made to assure that financial companies operating in the small loan field will in future be subject in all cases to the normal corporation tax rates. The gift tax provisions are to be amended in order to allow an exemption up to one-half of a person's taxable income less the amount of income tax paid. This is to meet the objection which has been raised in this house to the fact that the gift tax in its present form is unduly severe in its effects on gifts which were not made for the purpose of tax avoidance. At the same time, we propose to discourage still further the making of gifts for tax avoidance purposes by substantially increasing the rates applying to gifts in excess of the increased exemption. The new schedule of rates will be graduated from 5 per cent on gifts totalling $25,000 or less, up to 15 per cent on gifts of $1,000,000 and over.

Provision is also to be made to allow Canadian parent companies an exemption from corporation tax in respect of dividends received from wholly-owned non-resident subsidiaries if at least 75 per cent of the combined capital of the parent and subsidiary companies is employed abroad and if the country in which the subsidiary is located grants a like exemption to parent companies in respect of subsidiaries in Canada.

It is also proposed to insert a provision in the act designed to prevent taxpayers from effecting transactions, using persons or corporations abroad for the purpose of evading Canadian taxation and not for business reasons.

No changes are proposed in respect of rates of tax under the Excise Act.

Under the Special War revenue Act, one important change and several minor ones are proposed. The minor changes, include an amendment to exempt from the sales tax feed for all fur bearing animals, harness, harness parts and materials used in the manufacture thereof, ingredients used in making gopher poison, and materials for the repair of fishermen's boats. Another amendment provides that in future the special excise tax on tires and tubes will in no case be levied when the items in question are for original equipment of automotive vehicles including tractors, trucks, trailers and motor cycles.

I come now to the most important change in taxation which the government proposes. Starting to-morrow the major products used for the building of houses, will be given complete exemption from sales tax. It is proposed that this exemption from sales tax shall cover all lumber, sashes, doors, laths, and shingles; bricks, building tile, building blocks, cement, stone, plaster and lime; plaster boards, fibre board, insulating materials, building paper and wallpaper; paints, varnishes, white lead and paint oil; prepared roofings; glass for buildings; plumbing fixtures, not including piping and pipe fittings; furnaces for heating buildings; builders' hardware; and some other minor items. It will be realized, I am sure, that an exemption of the type here attempted presents considerable difficulties, and it was found impossible to provide specific exemption in respect of all the hundreds of various miscellaneous items entering into the construction of houses. It was necessary to make a selection but all the important materials which have their primary or predominant use in house-building are included. Accordingly, lumber, for example, although having many other uses, will be tax-exempt no matter for what purpose it is used. This will be the case with all the items exempted.

I believe the house will agree that this proposed tax change is highly constructive. Coupled with the various legislative measures which the government has already introduced, this tax reduction should act as a further powerful stimulus to the construction industry. If these various measures now before the house result in restoring normal construction activity, a large proportion of our remaining employable unemployed will go back on the payrolls of industry and to self-reliant citizenship. These important objectives are in my opinion ample justification for so radical a proposal. I need only add that the benefits of these tax reductions must be passed on to the consumer, and personally I am confident that the construction industry, for which so much is being done, will rise to the occasion with a renewed efficiency and vigour worthy of the great opportunity now presented to it.

IV

TARIFF AND TREATY NEGOTIATIONS

For reasons which I believe will commend themselves to the house, I am not proposing any amendments to the customs tariff in the present budget resolutions. It is true that the government had hoped that it would be found feasible to deal with a new United States agreement as part of this year's budget. Circumstances, however, have compelled us to abandon that expectation and the government, therefore, is not proposing any changes in the Canadian tariff pending the satisfactory conclusion of the negotiations now in progress.

In the budget speech two years ago, I said, "Canada cannot give to-day and bargain to-morrow." It is even more true, Mr. Speaker, in the world as it is to-day that unilateral tariff reductions will not get the wider export markets which our products need and which the government is securing for them. Since the present administration came into office, Canada has been a contracting party to the two most comprehensive trade agreements that have been concluded since the great war. Our agreement with the United States in 1935 and our agreement with the United Kingdom in 1937 resulted in the reduction of effective duties on a wide range of Canadian imports. They also secured the enlargement and consolidation of marketing opportunities for Canadian exports in the two biggest import markets of the world, which in the last calendar year took between them about eighty per cent of Canada's total exports. They were long strides towards our goal—both in intra-imperial and international trade—of lowering tariff barriers and freeing trade from fettering restrictions. We are now ready for further progress in this direction and we hope to take it in concert with the United Kingdom and the United States.

No commercial treaty policy can, in the nature of things, ensure against the disturbing influences on our national economy of industrial depression to the south of us, or of wars and rumours of wars to the east and the west of us. These disturbing influences are apparent from the most casual scrutiny of our trade returns. The returns reveal an expansion of those exports for which demand has been increased by the fears of war, and at the same time a falling off in the value of those exports for which demand depends on peace and prosperity in the countries which normally buy our goods. This is not, fundamentally, a healthy condition. The

world itself is not in a healthy condition and Canada's economic relations with the outside world reflect the disturbances beyond our frontiers.

I see no reasonable hope of restoring normal trade relations except by a vigorous prosecution of the policy of tariff reduction through bilateral trade agreements, a policy for which this government has stood since its entry into office. For better or worse, the force of circumstances has eliminated at least for the present the alternative approaches of unilateral or universal action. The United States is not prepared to reduce its tariffs except by way of trade agreements, and the United Kingdom is now pursuing a similar policy. This being the present attitude of our two best customers, it is surely apparent that Canada should try to reach agreement with them rather than to pursue at this time an isolated policy of further unilateral tariff reductions. I do not think there should be any real difference of opinion as to where the national interest of this country lies. It is bound up inseparably with the restoration of free and stable international trading conditions. Every effort in that direction has had and will continue to have our wholehearted support and practical cooperation.

It would not be proper for me, at this time, to make any statement with regard to the negotiations looking toward the conclusion of new trade agreements between Canada and the United States, and the United States and the United Kingdom, which have been pursued steadily in Washington for some months now. We have embarked, it is true, on a big and difficult undertaking which for its successful completion will require the continuing collaboration in good faith of all the countries concerned. We believe that all the benefits of the good neighbourhood which we in Canada appreciate in our relations with the United States of America can be fully realized only through closer cooperation in the economic field between the United States and all the countries of the British commonwealth. The process of translating these hopes, which we all share, into concrete results has been difficult and protracted. In the present instance, it is clear that if we are to find fair and practicable solutions to the problems involved, Canada must make its contribution along with the rest towards a general settlement. It is perhaps true that in some areas and in some industries we have been enjoying the best of both worlds, and it has been argued, therefore, that our interest is to sit tight and exploit such privileges for what they are worth—while they last. Such an attitude is obviously shortsighted; it is certainly not the policy of this government, which is striving, on the basis of reciprocity and fair dealing, to work out trade arrangements with all nations which will serve the best interests of Canada as a whole.

I shall not attempt to prophesy the consequences that may follow from a successful completion of the present negotiations. I cannot refrain, however, from reminding the house that proof of the will and capacity of the countries of the British commonwealth of nations and the United States of America to cooperate in the field of trade will be a political fact of world importance. Conversely, the acknowledgment of inability to do so would limit the influence of the great democracies as a stabilizing factor in a disturbed world. The economic benefits of success in our efforts would not be confined to the trade and prosperity of the countries directly engaged in these negotiations. They would, through the application of the policy of equal treatment in commercial matters, be shared in some degree by every country in the world. The progressive reduction of the tariffs of the great trading nations will undoubtedly lessen the present strains under which the economies of many less fortunate nations are labouring. It should help to turn the nations of the world away from economic nationalism which is both a cause and a consequence of the growing fear of war.

CONCLUSION

In conclusion, Mr. Speaker, I do not exaggerate when I say that the fate of civilization to-day depends on whether these qualities of toleration, of good-will, of friendly cooperation, of ability to take the far-sighted view and of willingness to sink differences of lesser importance for the sake of the larger interest—whether these triumph in human affairs. If I may say so, these old-fashioned qualities are needed not only in international affairs but in the day to day relations between individuals, social groups and political bodies in this country. In spite of all our difficulties, I am confident that the Canadian people possess these qualities to a degree which will ensure continuous and progressive development of a united Canada.

BUDGET RESOLUTIONS

Mr. Speaker, I beg to give notice that when we are in committee of ways and means I shall move the following resolutions:

INCOME WAR TAX ACT

Resolved, That it is expedient to amend the Income War Tax Act and to provide:

1. That lump sum payments made in Canada, which sever the funds permanently from the assets of the payor company, for the establishment of superannuation or pension fund plans with a view to providing benefits for employees in respect of past years' services, shall be allowed as a deduction to the extent of one-tenth of such lump sum payments in each of ten successive years, commencing the year in which the payment is made; provided that in the case of superannuation or pension fund plans heretofore established by lump sum payments the said deduction shall commence in the year 1938 and continue thereafter until ten years shall have elapsed from the date of the initial payment.

2. That every corporation, the main business of which is the making of small loans shall, notwithstanding any other provision contained in the Income Tax Act, be subject to normal corporation rates of tax.

3. That annuities received under the provisions of any Will or Trust shall be taxable income of the recipient. Such annuities shall be taxable for the year 1937 and each year thereafter notwithstanding when the Will or Trust became effective.

4. That the Gift Tax shall not apply to any gifts made in any year by an individual the aggregate value of which in such year does not exceed an amount equal to one-half of the difference between the income which was subject to income tax in the previous year and the income tax payable thereon. Any enactment founded on this resolution shall be applicable to gifts made in the calendar year 1938 and thereafter.

5. That the rates of tax set forth in the schedule to the Gift Tax be increased as follows:

On gifts up to and including $25,000—from 2 per cent to 5 per cent.

On gifts exceeding $25,000 but not exceeding $50,000—from 3 per cent to 6 per cent.

On gifts exceeding $50,000 but not exceeding $100,000—from 4 per cent to 7 per cent.

On gifts exceeding $100,000 but not exceeding $200,000—from 5 per cent to 8 per cent.

On gifts exceeding $200,000 but not exceeding $300,000—from 6 per cent to 9 per cent.

On gifts exceeding $300,000 but not exceeding $400,000—from 7 per cent to 10 per cent.

On gifts exceeding $400,000 but not exceeding $500,000—from 8 per cent to 12 per cent.

On gifts exceeding $500,000 but not exceeding $1,000,000—from 9 per cent to 14 per cent.

On gifts exceeding $1,000,000—from 10 per cent to 15 per cent.

Any enactment founded on this resolution shall be applicable to gifts made in the calendar year 1938 and thereafter.

6. That royalties paid by persons abroad out of royalties received from sources within Canada shall not be allowed as a deduction in determining net royalty income from sources within Canada.

7. That if any person or corporation ordinarily resident in Canada effects any transaction which at any stage makes use of any person or corporation ordinarily resident abroad, and which has the effect of reducing the liability to taxation under the Act of such person or corporation ordinarily resident in Canada, such person or corporation ordinarily resident in Canada, shall continue to be liable to taxation under this Act to the same extent as if the transaction had not taken place. This provision shall apply to any transaction only if the Treasury Board upon a reasonable interpretation of the evidence available makes a ruling that the transaction was effected mainly for the purpose of avoiding liability to taxation under the Act. An appeal shall lie from any such ruling of the Treasury Board to the Exchequer Court of Canada.

8. That dividends received by Canadian parent companies from wholly-owned non-resident subsidiary companies shall be exempt from the corporation rate of tax if at least 75 per cent of the combined capital of the parent and subsidiary companies is employed abroad. Such exemption shall be granted only if, and to the extent that the country in which the subsidiary company is located grants a like exemption to parent companies in respect of dividends emanating from subsidiary companies in Canada and shall not extend beyond dividends that are equal to profits that have been subject to tax abroad in the year previous to the year of declaration of the said dividends. Any enactment founded on this resolution shall be deemed to have come into force at the commencement of the calendar year 1938 and to be applicable to the calendar year 1938 and to fiscal periods ending therein and to all subsequent periods.

9. That any enactment founded on the provisions of these resolutions shall be deemed to have come into force at the commencement of the calendar year 1937 and to be applicable to the calendar year 1937 and to fiscal periods ending therein and to all subsequent periods, except as otherwise provided.

SPECIAL WAR REVENUE ACT

Resolved, That it is expedient to introduce a measure to amend the Special War Revenue Act, chapter one hundred and seventy-nine of the Revised Statutes of Canada, 1927 and amendments thereto and to provide:

1. That Schedule III to the said Act being the list of articles exempted from the consumption or sales tax be amended by adding to the said Schedule the following:

"Materials for use exclusively in the manufacture of gopher poison;

Harness for horses and complete parts therefor and articles and materials to be used exclusively in the manufacture thereof;

Feeds for fur-bearing animals whose pelts have commercial value;

Articles and materials for use exclusively in the equipment or repair of boats used by fishermen in the fisheries;

Bricks; building tile, building blocks and building stone; plaster; lime, cement; stucco and stucco dash;

Lumber; sash; doors; shingles; lath; siding; stairways; balustrades:

Plaster boards, fibre boards, wallpaper, building paper, and materials manufactured wholly or in part of vegetable or mineral fibre for wall coverings or building insulation;

Paints, varnishes, white lead and paint oil;

Prepared roofings;

Shower baths, bath tubs, basins, faucets, closets, lavatories; sinks and laundry tubs, not including pipes and pipe fittings;

Glass for buildings;

Furnaces for heating buildings;

Builders' hardware, namely: locks, lock sets, butts, hinges, pulleys and window fasteners.

2. That Schedule II to the said Act be amended by striking out the following words in paragraph three thereof:

"Provided that the tax hereby imposed shall not apply to the goods mentioned herein, when sold to or imported by manufacturers of automobiles or chassis for the original equipment of such automobiles or chassis under the following conditions:

(i) If less than ten thousand automobiles or chassis are manufactured or produced per annum and at least fifty per centum of the factory cost of manufacturing or producing them, exclusive of duties and other taxes, is incurred in the British Empire;

(ii) If ten thousand automobiles or chassis or more are manufactured or produced per annum and at least sixty per centum of the factory cost of manufacturing or producing them, exclusive of duties and other taxes, is incurred in the British Empire;

Provided, however, that effective April 1st, 1938, the words "sixty-five" shall be substituted for the word "sixty" in this paragraph."

and substituting therefor the following:

"Provided that the tax hereby imposed shall not apply to the goods mentioned herein when used exclusively for the original equipment of such automotive vehicles."

3. That subsection two of section fifty-eight of the said Act be amended to provide that the excise tax payable upon the sale, transfer or assignment of any share at a price or valuation of one dollar shall be one-quarter of one cent per share.

4. That any enactment founded on this resolution shall be deemed to have come into force on the seventeenth day of June, one thousand nine hundred and thirty-eight and to have applied to all goods imported or taken out of warehouse for consumption on and after that date and to have applied to goods previously imported for which no entry for consumption was made before that date.